The Economist

What Russia's winter reveals
PAGES 14 AND 21-23
Cheney's potshot
PAGE 24
Europe's buy-out boom
PAGES 22 AND 68
Google's bubble pricked
PAGE 68

FEBRUARY 16TH-22ND 2008 www.economist.com

HOW TO MANAGE AN AGEING WORKFORCE

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
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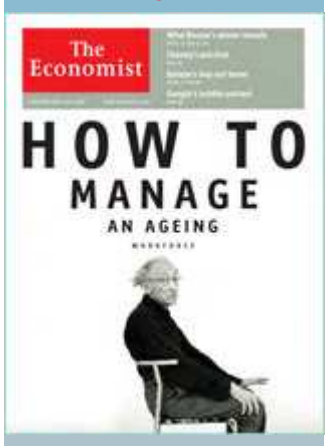

Full contents
Enlarge current cover
Past issues/regional covers

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters
WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide
SURVEYS
BUSINESS
Management Reading
Business Education
Executive Dialogue
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
PEOPLE
Obituary
BOOKS & ARTS
Catch if you can
Style Guide
MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
DIVERSIONS
RESEARCH TOOLS
CLASSIFIEDS
DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
The Economist Group
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The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
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Business Gifts

Print Edition February 18th 2006

On the cover

The ageing workforce raises huge social and economic questions. Workers, employers and governments all need to adjust their behaviour to cope with it: leader

Previous print editions
Feb 11th 2006
Feb 4th 2006
Jan 28th 2006
Jan 21st 2006
Jan 14th 2006
More print editions and covers »

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The world this week

Politics this week
Business this week

Leaders

Older workers
How to manage an ageing workforce

Saddam Hussein's trial
Undignified, but not a farce

Corporate debt
Europe's new deal junkies

Haiti
Making the best of an election in a failed state

Russian politics
The nervous authoritarian

Letters

On pensions, Afghanistan, India's stockmarket, French politics, European culture, George Bush

Special Report

Snow in Russia
A winter's tale

United States

The presidency
Not a good week

New York survives
The perfect storm

China-bashing
Portman's complaint

The economy
The Alan and Ben show

The environmental movement
Endangered species

Selling public lands
Today's wood, tomorrow's spa

Lexington
Ready, fire, aim

The Americas

Haiti's electoral aftermath
The rubbishing of a vote

Venezuela
Mission impossible

Peru's water industry
Quenching thirst

Ecuador
The search for roses without thorns

Asia

Japan
The past's long shadow

China
Olympian efforts

India and Taiwan
Getting acquainted

The South Pacific
Freedom out of fashion

Business

European car firms
The big squeeze

Internet business
Gurgle

Hispanic media
Reunited

Spanish companies
Corporate conquistadors

German wine
Wine-swilling hordes

Ambush marketing
War minus the shooting

The fertility business
Cupidity

Face value
Making the trains run on time

Correction: Heye and Partner

Special Report

The ageing workforce
Turning boomers into boomerangs

The ageing brain
Wisdom or senility

Finance & Economics

Corporate debt
Barbarians at the gates of Europe

Mafia money
Out of the rocks

The PCAOB
A matter of oversight

Paying for education
Thanks to the banks

Norinchukin Bank
In search of a new furrow

GDP growth
A numbers racket

Merrill Lynch
BlackRock and a hard place

Economics focus
More than a notional improvement

Science & Technology

The origin of life
In the beginning...

Climate change (II)
Greenland's less-icy mountains

Climate change (I)
Full to bursting

Books & Arts

Gothic horror
Stuff of dreams

Sir Wilfred Thesiger
Travelling with baggage

Advertisement

Indonesia
Toothless, ruthless and hard to reform

Kazakhstan
And then there was one

South Korea
The king, the clown and the quota

Middle East & Africa

Palestine and Israel
A dilemma over Hamas and its cash

Iraq
Please try harder to be inclusive

Botswana
The row about the Bushmen

Uganda
Who's for president?

Swaziland
It's still fun to be king

Europe

Italy's elections
A "martyr" with some method in his madness

Kosovo's future
When hard truths shock

Denmark's cartoons
Reaping the whirlwind

German trade unions
There's life in the old dinosaurs yet

Bird flu
Sinister droppings

Charlemagne
Not yet free to serve

Britain

Politics
Out-toughing the Tories

Army abuses
Video nasty

Smoking
Thou shalt not inhale

Economic outlook
Boringly benign

Software investment
Now they see it

Money for London
Feeding the milch cow

London's East End
The simmering pot

Corner stores
Shopping for trouble

Bagehot
Gordon spreads his wings

Articles flagged with this icon are printed only in the British edition of *The Economist*

Martin Luther King
Freedom man

Germany
Water power

New fiction
Comings and goings (1)

New fiction
Comings and goings (2)

Obituary

Freddie Laker

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Prime industrial space

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Football money league

Emerging-Market Indicators

Overview

The Economist poll of forecasters

Economy

Financial markets

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Classifieds

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Tenders
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KUWAIT-MAASTRICHT BUSINESS SCHOOL
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Politics this week

Feb 16th 2006
From The Economist print edition

AP

Australian television aired more footage of American soldiers abusing Iraqis at the **Abu Ghraib** prison in 2003. The pictures included images of prisoners being beaten and forced to masturbate. Meanwhile, images surfaced of four Iraqi teenagers being beaten by **British soldiers** following a riot in Basra in 2004. The incident is being investigated by the Ministry of Defence.

A House of Representatives select committee, comprised entirely of Republicans, issued a scathing report on the government's response to **Hurricane Katrina**. The congressmen were particularly critical of the White House and Michael Chertoff, the homeland-security boss. See article

Dick Cheney accidentally shot a fellow hunter, causing serious injuries, at a quail hunt in Texas. Having initially treated it as an embarrassing mishap, the vice-president used a TV interview to take full responsibility after being accused of taking a flippant attitude. See article

The State Department set up a task-force on **internet freedom** that will consider censorship and political dissent around the world. The announcement came as Congress prepared to grill technology companies on their operations in China. See article

The Senate failed to pass a bill that would have established a $140 billion trust fund to compensate people with health problems related to **asbestos** and so end costly litigation battles. Senate leaders vowed to bring back the measure, which has been opposed by an unusual coalition of trial lawyers and business and insurance interests.

Illustrating their point

Three people died in Lahore and two in Peshawar as riotous demonstrations erupted in **Pakistan** against the publication in Denmark of cartoons of the Prophet Muhammad. In Peshawar, a branch of KFC was burned down, presumably on the ground that it is “western”, like the Danes.

In **Nepal**, the leader of the Maoist insurgency celebrated ten years of fighting by predicting that King Gyanendra would soon abdicate or be overthrown.

A number of senior current and former **Chinese** newspaper officials signed a letter protesting at the recent closure of a hard-hitting newspaper supplement, *Freezing Point*.

Two members of an **Australian** drug-smuggling gang were sentenced to death by firing-squad in Bali, and seven others were given life sentences. The sentences seem likely to complicate Australian-Indonesian relations.

Préval prevails

AP

The vote count in **Haiti's** presidential election descended into confusion. With most votes counted, the electoral council said that René Préval had failed to win the outright majority implied by earlier partial counts. Mr Préval cried fraud, but called on his angry supporters to show restraint. After protests from the UN and other outsiders, electoral officials later declared Mr Préval the winner. See article

Petrobras, Brazil's state-run oil company, said it planned to invest more than $5 billion in **Bolivia's** gas industry over the next five or six years, in joint-ventures with YPFB, the revived state oil company. Evo Morales, Bolivia's new president, wants foreign companies who hold gas concessions to become partners of YPFB.

An outbreak of foot-and-mouth disease in northern **Argentina** raised fears among beef exporters that they would lose foreign markets. But that may turn out to be good news for the country's president, Néstor Kirchner, who has been pressing beef producers to freeze prices as a means of tackling inflation, which reached 12% last year.

Slow progress

Ibrahim al-Jaafari, the current **Iraqi** prime minister, looked set for a four-year stint in the same job after the United Iraqi Alliance, the mainly Shia Islamist coalition that won the election in December, agreed to renominate him. If parliament endorses him, as expected, it could take another three months before a new coalition government is formed. See article

Saddam Hussein said he had gone on hunger strike to protest against tough treatment he is receiving during his trial. The prosecution continued with its case against the former dictator for executing political opponents in the 1980s. See article

The American administration denied reports that it was trying to prevent the **Palestinians'**Islamist movement, Hamas, from establishing its authority after winning last month's election by cutting off aid to reduce its popularity. See article

At the apparent behest of President Hosni Mubarak, **Egypt's** parliament moved to delay local elections that had been due in April. The presumed aim is to keep the ruling National Democratic Party's monopoly on power at a time when the officially banned Muslim Brotherhood looks set to gain ground.

The condition of Israel's prime minister, **Ariel Sharon**, who was incapacitated by a stroke in early January, worsened. Meanwhile, Omri Sharon, his elder son, who was an MP until last month, was sentenced to nine months in prison (starting on August 31st) for illegally raising funds for his father's campaign in 1999 to lead the Likud party.

Iran's government said it had resumed nuclear enrichment at its Natanz plant but denied that such activity would enable it to make fuel for reactors or for producing a bomb. France explicitly accused Iran for the first time of making a bomb. Its foreign minister, Philippe Douste-Blazy, said nothing else could explain Iran's nuclear activities.

Chicken out

Germany and Italy were among the latest European countries to report incidents of **bird flu**. Although the virus was found in wild swans, sales of domestic poultry plunged. There were fears the disease could spread farther in spring when birds migrate. See article

Ukraine's reformist finance minister, Viktor Pynzenyk, resigned on February 16th in protest at his country's murky gas deal with Russia, reports said. The two countries' wrangles over gas cut transit shipments to western Europe in January.

The House of Commons passed a measure that will ban **smoking** in Britain's pubs, clubs and restaurants. The Labour government had initially backed a partial ban, but health campaigners pushed hard for cigarettes to be completely stubbed out. See article

EPA

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Business this week

Feb 16th 2006
From The Economist print edition

Volkswagen's share price continued its upward trajectory after a senior executive said the company might close unprofitable parts plants and increase the working week in an effort to improve productivity by 30% over the next three years. The German carmaker has also warned that 20,000 jobs "could be affected" by its restructuring programme. See article

France Telecom announced that it will shed 17,000 jobs over the next three years as part of its restructuring. The company, like other fixed-line operators, is responding to the surge in broadband telephony. It estimates that, by the end of 2006, up to 40% of all calls made in France will be over the internet.

Nokia is to team up with **Sanyo** to make mobile phones incorporating CDMA technology, used in around 20% of handsets worldwide and the dominant standard in the United States. The joint-venture will be a close market rival for Samsung, the biggest maker of CDMA devices.

VimpelCom, a Russian mobile-phone operator, made a $5 billion bid for **Kyivstar**, the largest operator in Ukraine. The deal could create the biggest mobile operator in the former Soviet Union, but may be stymied by VimpelCom's two biggest investors (which also own Kyivstar) over strategic disagreements.

What not to expect

Google's share price continued its fall (to below $345) as investors took fright at an article forecasting the internet firm's share price could fall by half over the next year if revenue, under pressure from competition in online advertising, falls short of expectations. The darling of Wall Street last year, Google has seen its share price fall by 28% since peaking on January 11th this year, after quarterly results that failed to match analysts' estimates. See article

P&O's shareholders voted to accept a £3.9 billion ($6.8 billion) offer from **DP World**, ending a bidding war in which the Dubai-based company's effort to buy the British ports operator was almost thwarted by Singapore's **PSA**. P&O's share price has risen by close to 70% since confirming it had been approached about a takeover last October.

Warren Buffett is stepping down from **Coca-Cola's** board of directors to spend more time at his investment firm. The billionaire investor, who holds 8.4% of the beverage-maker's shares, joined the board in 1989 and was influential in the sometimes controversial decisions at Coca-Cola over the past few years.

Arcelor, a steelmaker based in Luxembourg that is fighting a hostile takeover bid from **Mittal Steel**, raised its shareholder dividend by 85% after reporting a 66% increase in net profit for 2005. Earlier, Lakshmi Mittal, who heads the world's largest steelmaker, said his offer had received an "overwhelmingly positive" response from investors in Arcelor. His comments came as Mittal Steel posted a 28% fall in profit for 2005.

Authorities in the European Union and United States raided the offices of several large airlines as part of a probe into possible price fixing in **air cargo** (some Asian carriers are also being investigated). The companies involved said they were co-operating with the inquiry.

Not a bad day at BlackRock

Merrill Lynch agreed to merge its investment-management business with **BlackRock**, an upstart by comparison with the established Wall Street firm but which has done well out of the fashion for investing in bonds. The deal creates one of the world's biggest asset-management companies (under BlackRock's name) with nearly $1 trillion under management. See article

Prosecutors in Japan charged Takafumi Horie with breaking Japanese securities law and falsifying accounts while boss of **livedoor**. Three other former executives were also charged, and indictments were brought against the company and an affiliate. The internet firm's share price continued its collapse, falling by 33% on February 13th.

Ben Bernanke stepped into the spotlight in his new job as chairman of America's Federal Reserve, delivering his first economic report to Congress. Previously seen by some as slightly dovish on inflation, Mr Bernanke emphasised that he would stand firm against inflationary pressures, which will be the biggest factor in setting future interest rates. See article

Importing trouble

America's **trade deficit** in goods reached $782 billion in 2005, prompting calls from politicians in Washington for “tougher measures” against China (which America says accounts for a quarter of the figure). Rob Portman, America's trade supremo, released a review of trade relations with Beijing, which he said lacked “balance”, and established a task-force with a remit to “enforce” China's obligations.

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Older workers

How to manage an ageing workforce

Feb 16th 2006
From The Economist print edition

Governments, employers and workers all need to change to keep baby-boomers on the job

ONE of the side-effects of the second world war was the most momentous social change of the past half-century. As men marched off to fight, women put aside their grooming magazines and gardening gloves and took their husbands' places in factories and on the farms. They never looked back. Many people worry about the impact on family life of their entry into the labour force, but most now take it for granted that women have as much to offer at work as men do.

Another change as large as that one is now under way. In a further half-century it will seem just as absurd that western societies today are content to press another potentially productive set of workers to stay at home sipping tea and potting begonias—and to pay them for it, to boot.

The question of how to deal with the growing number of retired people has recently been seen as chiefly a financial puzzle: how to pay for the leisure of those ageing layabouts. When Bismarck first introduced state pensions in the 1880s, they kicked in at the age of 70, about 20 years more than the typical life span. Nowadays state and company pension schemes kick in at or before 65, almost 20 years less. But the issue is more than just a financial one: it raises social as well as economic questions, and its resolution will involve governments, employers and people.

Sans teeth, sans work

The baby-boom generation, which started to turn 60 this year, contains the largest number of people ever voluntarily to give up work in such a short time. Because it is far larger than the

generation that follows it—or any that preceded it—it casts a shadow over the companies it is set to leave behind (see article). Japan expects its workforce to shrink by 16% (some 10m people) over the next 25 years. Europe will see the number of workers nearing retirement grow by a quarter. Some companies are already complaining of a shortage of skills, even before they have started to dole out carriage clocks and fountain pens by the barrow-load.

There are several ways of dealing with a falling supply of labour: work might be shifted offshore, to take advantage of abundant cheaper workers in poorer countries; laxer immigration rules might allow in more skilled labour from abroad; new equipment could enhance the productivity of a better-educated workforce. But one of the readiest sources of skilled labour is closer to hand.

If staying on at work were up to older employees alone, many would jump at the chance. That is partly because they will no longer be able to retire in the style that they have been led to expect. Corporate pension schemes and health benefits are becoming ever less generous. Last week General Motors joined the line of revisionists with an announcement that it will cap health-care spending by its retired workers. That will not be the last cut.

Baby-boomers say they want to stay in the workforce for more than money. Many also want to carry on working beyond the standard retirement age for the mental stimulation (try that on the next bored-looking 20-year-old you meet in the lift). Their productivity may decline as they get older—although people gain in experience, their capacity for sharp thinking falls off—but the traditional pattern of retirement, in which one day an employee is in a bustling office busy as a bee and the next he is good only for the potting shed and the fireside chair does not make sense for the economy, for companies or for people. You couldn't imagine that fate for the 69-year-old Carl Icahn (besieging Time Warner) or the 88-year-old Kirk Kerkorian (shaking up General Motors). It shouldn't be urged on their less enterprising peers, either.

If baby-boomers want to work longer and companies want more skilled workers, what's the problem? Part of the answer is that labour markets work particularly badly for older workers. Pensions need to be unhooked from final salaries, so that workers are not heavily penalised if they take pay cuts to stay in employment. That is already happening, with the decline of companies' defined-benefit schemes. State and private pensions should encourage workers to postpone retirement. That is already happening in Sweden and Switzerland, which both have relatively high labour-participation rates among older people. Pensions should be designed so that they allow part-time workers to continue to contribute even after their official retirement age.

Since governments benefit if people work longer (because they pay more in tax and cost less in benefits) they should be eagerly enacting such measures. But instead of freeing up labour markets to help older people work, governments are focusing on legislating to ban discrimination on grounds of age. European Union member countries are introducing such laws, even though experience in America, where they are already in force, suggests that making older people hard to fire discourages companies from hiring them.

Companies, as well as governments, need to be flexible. That's beginning to happen, partly because employers are keen to attract more women, and the part-time jobs that often appeal to them are attractive to the old as well. Big, well-managed companies tend to offer that sort of flexibility; others will have to learn.

Make work not war

Lastly, older workers need to adapt. In many cultures, age is related to seniority, and therefore to pay. The older the worker, the more expensive he is. Boomers will find work only if they accept that their wages will be based on what they are worth to the company—rather than their salary at

the top of their career. Although a shortage of skills might well push up wages for all workers, older ones may nevertheless have to accept a relative decline in salary and status.

Baby-boomers have been changing the world since the 1960s. They're about to do it again by turning the world of work upside down. This social upheaval may be quieter than the last one they were responsible for, but its consequences will be more profound and longer-lasting.

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Saddam Hussein's trial

Undignified, but not a farce

Feb 16th 2006
From The Economist print edition

The former Iraqi dictator's shambolic trial can, and should, be salvaged

Reuters

Get article background

WINSTON CHURCHILL wanted Hitler summarily executed. A fair trial would be a “farce”, he said. That's precisely what many feel the proceedings against Saddam Hussein have become. Since the trial began in October, the former dictator and his co-defendant half-brother have been having a high old time denouncing the American-backed tribunal as “the daughter of a whore”, hurling abuse at the judges, staging walk-outs, railing against Iraq's occupation by “foreign invaders”, demanding repeated adjournments and, now, mounting a hunger strike. The court, adjourned yet again this week until February 28th, has sat for only 11 days in the past four months.

Add to this the assassinations (one judge, a court official and two defence lawyers have been murdered within the past year), the sacking of the court's first administrator, the threatened purges of other officials, the resignation of two of the five trial judges along with the replacement of a third, and the stand-off between the bench and a defence team that is refusing to return to the courtroom, and it is easy to understand why so many believe the trial to be on the verge of collapse.

This is presumably just what Mr Hussein wants. But the situation is not, in fact, nearly as dire as the prime-time soundbites make it seem. The hearings have at times resembled a bear pit rather than a model trial. But other high-profile trials, including that of Slobodan Milosevic in The Hague, got off to equally bumpy starts. And despite its lack of experience, the all-Iraqi court has made solid progress under difficult conditions. It has taken evidence from some 25 witnesses involved in the massacre of 148 Shias in the village of Dujail in 1982—the first case to be brought against Mr Hussein. Though still feeling its way, it has by and large adhered to international standards of due

process. And, far from being silenced, the defendants have if anything had too much freedom to have their say.

This is not to say that there is no room for improvement in the way the tribunal is working. It needs expert assistance in almost all areas: exhuming mass graves, supporting witness-protection programmes, providing legal advisers, technical assistants, translators, media professionals and so on. But many of the countries and organisations that have most to offer are refusing to help—even to the point of withholding evidence. Some of them say, genuinely, that this is because Iraq has a death penalty. However, in many cases it is hard to escape the conclusion that their real motive is a reluctance to do anything at all that might be read as helping America in Iraq.

That attitude is long past its best-before date. It is true that the court might have enjoyed more legitimacy if it had been set up with strong international input under the UN, along the lines of the war-crimes tribunal in Sierra Leone. But most Iraqis did not want it that way, and it is not going to happen now.

The trial's foreign critics should now lend their practical and moral support to a venture that is still worth saving. Leaving the burden of supporting the court to the Americans will merely strengthen the widespread but so far unwarranted suspicion that this Iraqi court is in fact an American tribunal dispensing victors' justice. For its part, the court could win greater acceptance if it showed more willingness to take on foreign advisers, rebuffed political interference and did a better job of explaining some of its legal argumentation. In Mr Hussein's kangaroo courts, the accused were tried and shot within minutes, live on television. It is still possible that a fair trial by an Iraqi court will show Iraqis that he, like Churchill, was wrong.

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Corporate debt

Europe's new deal junkies

Feb 16th 2006
From The Economist print edition

Risky borrowing is reshaping Europe's corporate landscape. About time too

IN AN industry condemned to believe that size matters, it is remarkable that the record for the greatest leveraged buy-out dates as far back as 1988—when Tom Wolfe's "Bonfire of the Vanities" was a bestseller, and Michael Milken, the junk-bond king, walked tall on Wall Street. The $25 billion hostile takeover of RJR Nabisco, maker of Winston cigarettes and Oreo cookies, has remained a marvel of the corporate world not just because of its size, but also because Kohlberg Kravis Roberts, the private-equity outfit that bought it, had a hellish task to recoup its money. Yet that has not stopped today's bankers savouring the prospect of an even bigger barbarian raid. All the talk is of shattering KKR's record (today's masters of the universe are not counting inflation) in the coming months or weeks—and this time a deal is as likely in Europe as America.

Inevitably, perhaps, this arouses European fears of cross-border raids by heartless asset-strippers. Some worry about curbs on investment and innovation, as private-equity groups instead seek short-term profits. Anyway, isn't the lesson from KKR that all that debt is dangerous?

Not necessarily. There are reasons to celebrate the arrival of a new debt culture in Europe. Buy-outs promise to breathe fresh air through stale conglomerates by hastening restructuring. The need to pay down all that debt—or avoid a predator—will put managers on their toes.

Europe's capital markets are changing. The cosy, often inefficient, relations between its banks and their corporate clients are being supplanted by cheaper, but more opportunistic, debt practices of the sort that fuelled the takeover boom in America in the 1980s. With investors searching for alternatives to low-yielding bonds and shares, buy-out merchants can raise astonishing sums astonishingly fast (see article).

Debts and liabilities

Mostly, the pioneers are still private-equity firms—such as KKR. Late last year, it clubbed together with rivals to do Europe's largest-ever leveraged buy-out—the $12 billion takeover of TDC, a Danish phone company. But the appetite for super-sized debt is spreading to more conservative areas, as well. Ferrovial, a Spanish construction company, is pondering a bid for BAA, operator of London's main airports. Including debt, BAA would be worth about €15 billion ($25 billion)—a Nabisco-sized mouthful the Spaniards would finance with heavy borrowing. And there are rumours (whether you believe them or not) that Unilever, a consumer-goods company, may fall prey to a private-equity raiding party. Permira, a private-equity group, is raising Europe's first €10 billion ($12 billion) fund. The head of a rival says, without batting an eyelid, that it would be conceivable to raise $100 billion in the next decade.

The worriers are right to fear that all this could become reckless. With large sums of money chasing a small number of targets, prices are rising close to levels last seen in the boom-bust era of 1980s America. Borrowers are venturing into the more toxic end of the credit spectrum, such as junk bonds and leveraged loans. With credit quality deteriorating, default rates are bound to rise. As they do so, hedge funds, a new ingredient in the mix of lenders, will get caught up in the mess with unpredictable consequences for markets.

Yet those who risk their money are hardly innocents. As one banker puts it, these deals take place “between consenting adults”. And, although the stability of the financial system is not to be taken lightly, it would be odd to pick on buy-outs as the chief systemic risk, instead of looking at the complexity of the system as a whole.

Moreover, the buy-out boom may well do Europe some good. The new institutional funds elbowing out “relationship” banks from the credit market are a hard-nosed bunch. Running firms under the pressure of high dividend and interest payments wonderfully concentrates managers' thinking. It encourages them to cut waste, to strive for efficiency and to hesitate before bowing to what the late Merton Miller, a Chicago economist, once described as “the temptations to pour the firm's good money down investment rat-holes.” If debt spurred the reshaping of corporate Europe—a break-up here, a cross-border merger there, a shut factory somewhere else—the continent would benefit.

The greed and destruction that characterised America's buy-out boom have given the era a bad name. Yet greed and destruction can be useful. The takeovers helped engender a reshaping of corporate America that made its economy work better. Europe should hope for the same.

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Haiti

Making the best of an election in a failed state

Feb 16th 2006
From The Economist print edition

René Préval's tortuous triumph should not be the prompt for outsiders to go home

AP

NEARLY everywhere else in the Americas, elections have happily become routine affairs. Not so in Haiti, where many aspects of life resemble the more troubled parts of Africa. For the past two years, a United Nations mission has been trying to turn Haiti into a nation. A crucial step in this process was a presidential election, held on February 7th. Haitians turned out in large numbers and, despite some inevitable problems in some places, the day went well. Sadly, the counting of the votes did not (see article).

At first it seemed that René Préval, a former president, had won a clear victory. Mr Préval was once an ally of Jean-Bertrand Aristide, the firebrand populist who was pressed to resign as president by the United States and France two years ago. As the count drew to a close, Mr Préval's vote had fallen to 48.7%. That meant a run-off ballot—even though no other candidate got more than 12%. His supporters in the grim shantytowns of Port-au-Prince, the capital, cried fraud. They barricaded much of the city.

It was not clear whether their hopes had been dashed by incompetence, or a conspiracy to defraud. But there were several worrying signs. Although many Haitians had walked miles to vote, a suspiciously high number of blank ballots were cast. Tens of thousands of ballots went missing. Some were found, burned, on a rubbish dump. The government agreed to an inquiry, but wanted to exclude the UN from it.

Finally, an agreement was reached to exclude some of the blank ballots, pushing Mr Préval's vote to 51%, allowing him to be declared the winner. It helped that several defeated candidates conceded. It is to be hoped that this agreement holds—and that it marks a departure from the winner-takes-all politics that lie at the root of Haiti's problems.

Mr Aristide did not break that tradition. His rule had become thuggish by the time he was toppled. The businessmen and politicians linked to past dictators who led a revolt against him have dominated the interim government. Mr Préval's victory robs them of what they saw as their inheritance.

Haiti's immediate need is for a government with a clear democratic mandate. Now it appears to have one—even if getting there was tortuous. But it will take more than that if a country of 8.3m people with an income per head of just $390 a year is to cease being a failed state. The UN mission has some achievements to its credit. Much of the country is calm. Violence is largely confined to some areas of Port-au-Prince. But that is enough to blight the country's prospects. Who is going to invest in what has become the kidnap capital of the world?

Applying the Bush doctrine in the Caribbean

If the election is really to mark a new start, the UN needs to be more assertive, in three ways. It allowed the interim government too much control over organising the election. Until its democracy matures, Haiti's electoral authorities need outside oversight. Second, far from shrinking, as appears likely, the UN's 9,000-strong force of mainly Latin American troops and police should be strengthened. Especially needed are French-speaking trainers to build a national police force.

Third, little of the promised foreign aid has reached ordinary Haitians. That is partly because there are few local institutions through which it can be spent and partly because foreign contractors have been scared off by violence. This points to the need for the UN and aid donors to take a less cautious approach. Breaking the grip of the violent drug gangs over the slums would be easier if the UN could offer some social projects, and a few jobs repairing roads and the like. In the medium term, Haitians, including those abroad, will have to take responsibility. But for now they need help to break the vicious circle of disorder, political deadlock and poverty.

Haiti's chances have also been damaged by partisan politics in the United States. The Democrats and the congressional black caucus were too indulgent to Mr Aristide, whereas the Republicans were in cahoots with some of his dodgier opponents. George Bush now has a splendid opportunity to apply his pro-democracy policy a lot closer to home than the Middle East by working with Mr Préval and bolstering his support for the UN mission. Haiti is a poverty-stricken half-island with few resources. But America has found it necessary to send in its troops repeatedly over the past century to try to build a nation. This time the UN should finish the job—lest it has to start all over again in the future.

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Russian politics

The nervous authoritarian

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From The Economist print edition

Foreigners have little influence over the Kremlin, but Russians have more than they realise

Reuters

TWO ancient Russian convictions help to explain what, to many outsiders, can seem the strangely resilient popularity of President Vladimir Putin. The first, optimistic, notion is that, encumbered though he may be with nasty advisers, the “good tsar” always has the welfare of his people at heart. The second, fatalistic, idea is that, in any case, ordinary folk can have little sway over the Kremlin and its caprices.

A recent scandal involving what is among the worst of the depredations inflicted by successive Russian governments on their people—military conscription—has shown both assumptions to be false. Foreign statesmen giving him lectures on democracy make little impression on Mr Putin, but ordinary Russians can.

The scandal concerns Andrei Sychev, a teenaged conscript who on New Year's Eve was tortured for hours by a gang of servicemen at their base in Chelyabinsk. After he was denied medical care for several days, and gangrene spread across his body, doctors amputated Mr Sychev's legs and genitals.

But his case would probably not have caused the stir it has, after it eventually came to light, had Mr Sychev not survived. According to official figures, more than 1,000 Russian servicemen perish every year in non-combat crimes and accidents—more than the number of Americans killed annually in Iraq. Anti-conscription campaigners say the true figure is much higher. The perpetrators of the brutality are often senior conscripts, who force their juniors to beg and steal on their behalf; but the main beneficiaries of the system that permits it are officers. These days, a big conscript army like Russia's has very little military utility, but it is hugely profitable: for the recruitment officials who take bribes from parents desperate to save their sons from fates such as

Mr Sychev's, and for the officers who use conscripts to build dachas, and hire them out as day labourers. A reform proposed by the government—to draft more young men, but cut their term of service from two years to one—would create an even more useless army but preserve the lucrative principle of conscription.

The persistence of this travesty ought to be evidence enough that the lives and well-being of its citizens are not the Russian government's top priority. The initial response to the Sychev case was characteristic: it was “nothing serious”, said Sergei Ivanov, the defence minister, who is widely tipped to be Mr Putin's successor as president. Mr Ivanov backtracked, however, when it became clear that Mr Sychev's misfortune would not be hushed up as easily as are most other military embarrassments. There were demonstrations, and reports in the often uncritical media, and previously unreported cases of awful mistreatment were publicised. As a result, investigations have been launched, heads have rolled, and new measures to tackle the abuse of conscripts are promised. Both Mr Putin and Mr Ivanov have maintained that depravity in the army reflects the problems of society as a whole. That is a coded way of saying that conscription itself is not to blame. But anger with the system is growing.

What is to be done

Something similar happened in Russia last winter, when the clumsy introduction of welfare reforms brought thousands of ordinary Russians onto the streets across the country. In that case, some of the reforms were hastily diluted or postponed. The lesson of that episode, and of the Sychev affair, is that while Mr Putin's regime, with its firm grip on the courts, the media, parliament and elections, looks unshakeable, like other authoritarian regimes it is also nervous. When the rights of immigrants and other minorities are routinely compromised, in Chechnya or Moscow (see article), nobody in Russia takes much notice. But when ordinary, ethnic Russians mobilise to defend their interests, the Kremlin worries, and changes course.

Western diplomats spend a lot of time wondering what they can do to reverse the undemocratic, neo-imperial trend of Mr Putin's Russia. In truth, they can't do much. But the biggest indictment of Mr Putin's regime has been not its meddling foreign policy, but the things it has done to many of its own citizens. If more of them realised that the “good tsar” is not beyond their reach, they might one day have a government more worthy of their faith.

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On pensions, Afghanistan, India's stockmarket, French politics, European culture, George Bush

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When I'm 64

SIR – Your report on the problems associated with defined-benefit pension plans raised important issues ("When the spinning stops", January 28th). However, you failed to mention that the actuarial profession in the United States has been working with the government for years to develop pension rules that strengthen the system to the benefit of employees, employers and the taxpayer. We support several proposals, which include changing the rules to require employers to fund their pension plans to at least 100% of their market liabilities more quickly; removing incentives for equities in the rules; modifying rules that penalise firms for contributing extra money to their pension funds in good times; and making company balance and income statements more transparent.

Donald Segal
Vice-president for pensions
American Academy of Actuaries
Washington, DC

SIR – You blame actuaries, and their hopelessly optimistic forecasts of the assets needed to meet future liabilities, for the mess in company pensions. But corporate managers are also to blame for searching high and low to find actuaries who would supply such inaccurate forecasts in order to lower pension costs and improve profits.

Charles Metzger
Wilmington, North Carolina

SIR – Reducing all future liabilities to net present value to compare them with current assets, and then advocating immediate corrective action, has actually promoted short- termism and risk aversion, which is a bad thing. Any desirable result in life involves some risk; "guarantees" tend to produce undesirable results. For example, no one reading this letter can guarantee that they will be alive the next day. Should they wish it, however, they could certainly guarantee that they were not. The pensions industry must take the long view by making investments that are volatile in the short term, but likely to yield far higher long-term returns.

Richard Chappell
Chester, Cheshire

SIR – American companies are scuttling defined-benefit plans and at the same time making every

effort to push employees into defined-contribution pensions, in which employees make the investment decisions and bear all the risk of poor investment returns. The investment concepts being promoted—stocks outperform bonds in the long term, risk can be diversified away—are the very concepts that landed defined-benefit plans in trouble in the first place and this is unconscionable. Workers are being led into retirement plans that will fail them. The future will be ugly.

Malcolm Mitchell
New York

Defending Afghanistan

SIR – Your leader on Afghan security says that Italy (in the good company of Germany, France and Spain) declined to send its soldiers to southern Afghanistan ("Heading south", February 4th). It is true that Italy is not now sending troops into the south of the country under NATO. But in 2003, when Afghanistan was less secure than now, Italian mountain troops and parachutists took part in Operation Enduring Freedom to fight terrorists on the Pakistani border. We did not shy away from the badlands of Afghanistan and the Italian contingent played a key role in securing subsequent elections. With 2,200 men on the ground, Italy has one of the largest contingents. It currently holds the overall command of NATO's ISAF mission and is responsible for NATO's security presence in west Afghanistan, including a provincial reconstruction team in Herat, thus allowing for a further expansion of allied troops to the south.

Pasquale Terracciano
Spokesman
Ministry of Foreign Affairs
Rome

SIR – If NATO simply purchased Afghanistan's entire opium crop, the al-Qaeda-Taliban network would lose its primary source of funding. No money, no bombs, or compensation for the families of suicide-bombers. This would also give poor Afghans a legal cash crop. The opium could be used for morphine or simply destroyed. Why is such a potentially effective strategy not being put forward?

Alisdair Findlay
Cheltenham, Gloucestershire

Taking stock

SIR – The Yes Bank scandal that hit India's stockmarkets recently has not "shaken" faith in the system ("Improper names", January 28th). Quite the contrary. The unearthing of the scandal shows that India has a strong regulatory framework and a vigilant watchdog, the Securities and Exchange Board of India. Perpetrators of scams are caught, lessons are learnt and the system becomes more effective. I agree that India's regulatory regime is lagging by comparison with most western economies, but India's financial markets are far better regulated compared with most developing countries.

Sukeert Shanker
Chicago

French concord over Arcelor

SIR – In your leader on Mittal's hostile bid for Arcelor, you wrote: "French socialists said that in

Europe's 'hour of truth' Arcelor had to be protected 'even if it couldn't be protected legally'" ("Heavy Mittal", February 4th). However, this remarkable statement was not issued by a member of the Socialist Party (PS), but—much worse—by Bernard Carayon, a member of the ruling Union for a Popular Movement (UMP). Moreover, even if Mr Carayon is a conservative by French standards, you are right to call him a socialist. Consider that political parties in France are distinguishable mainly by "style". The all-embracing differential is one of: Do I prefer my *mousse au chocolat* "*à la* UMP" with French cognac or "*à la* PS" with Cuban rum?

Florian Schwab
Zuoz, Switzerland

Cultural dissonance

SIR – Culture is the war cry of scoundrels, as Charlemagne rightly suggests in his response to the European Union's attempt to give substance to "European culture" (February 4th). Only spent countries go for such claptrap. Subsidising Mozart, Shakespeare, or Rubens won't get you far if you've lost the drive to compete globally—their operas, plays and art need public funding, even in their home countries. Labelling "European culture" (whatever that means) is handy for tourists. But even then, applying the older "Greek" or "Roman" cultural labels packs a far greater competitive punch.

Ranko Bon
Motovun, Croatia

SIR – Charlemagne is missing the point when he states that Europe "cannot really be defined in terms of a single culture". This is precisely what defines Europe's distinct identity, which is neatly summed up in the EU's motto, "United in diversity".

Timur Friedman
Paris

Topsy-turvydom

SIR – George Bush can relax: his ambition to be a "transformational" president has already been realised ("Right-ho", January 28th). When the president took office, the United States was prosperous, at peace, and widely respected. He has indeed accomplished much in five years.

David Palmer
Leverett, Massachusetts

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Snow in Russia

A winter's tale

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From The Economist print edition

What the snows of Moscow reveal about modern Russia

AFP

ON THE wall of Andrei Pentukhov's office is a large map of Moscow. Black marks are scattered across it, clustering especially around the railway stations to the north-east of the city centre. Each black spot represents a person found dead of hypothermia in the streets. Mr Pentukhov, who works for the municipal social-services department, explains that hypothermic corpses turn up even in August, after drunks tumble into puddles. Most of the black spots, however, appear on the map during the winter. Muscovites have a name for the bodies that emerge when the snow thaws; they call them “snowdrops”.

“The dark sky merged with a sea of snow,” wrote Pushkin in “The Captain's Daughter”; “in one second...everything disappeared.” Today, the winter snows of Moscow cover many of the city's flaws: the glum architecture, and the grime and clutter of its breakneck growth. But the winter and the snow also reveal other, hidden aspects of modern Russia: the superpower status it still retains among its neighbours; the desperation that lurks beneath the oil-fuelled glitz; the brutality, lawlessness and all-permeating corruption.

Consider the wintry lives of two sometimes invisible communities: the homeless, and the army of migrant workers from Russia's ex-Soviet neighbours which has descended upon its capital. Less eye-catching than terrorists and tycoons, they are just as telling about the country they live—and die—in.

The problems and peculiarities of Moscow's homeless reflect Russia's dramatic recent history. First, their sheer numbers, which, like many of Russia's problems, are as outsized as the country itself. Those numbers have declined since the early 1990s, but even conservative estimates say there are still 10,000 souls sleeping on the city's streets or in temporary digs; some put the figure many times higher. Just as striking is the paucity of public provision for them. Peter the Great decreed that vagrants should be beaten and exiled to Siberia; in Soviet times, homelessness was, in effect, illegal. Today, the city provides around 1,500 hostel beds, says Mr Pentukhov, who insists that no one is turned away in winter. Others are sceptical.

The special causes of Moscow's homelessness are telling, too. As in other countries, many rough-sleepers are ex-convicts. But others are victims of the economic turmoil of the 1990s—first the chaos and hyperinflation that followed the Soviet Union's disintegration, then the default and devaluation of 1998. Some traded their apartments for vodka, or were swindled out of them and have slept rough since.

Between swigs of beer outside a railway station, Naina claims that the mafia and the FSB (successor to the KGB) conspired to take her home away. “Granny Tanya”, as she is known among her peers, is a toothless old woman in a pitifully thin coat, with signs of a recent beating on her face. Her days are spent in an underpass near the ministry of foreign affairs. She knows where the traffic lights change most slowly, giving her most time to beg from idling cars. She lived in Central Asia for most of her life; returning to Russia in 1990, she found it had no place for her. Before the heavy snows came she slept on top of some hot-water pipes at the back of an apartment block.

In winter, Moscow's homeless sleep in the stairwells of residential buildings, ringing on all the buzzers until someone inadvertently lets them in, then pretending to be asleep when residents pass by. Or they crawl into the ventilation shafts of the city heating system. It is too cold to walk around all night and sleep in the Metro during the day as they do in the summer; but some ride suburban trains to outlying towns where the entryways to apartment buildings are unlocked. Or, as Granny Tanya has often done, they bed down in one of Moscow's stations. The homeless adults share these with another group that is symptomatic of Russia's post-Soviet condition: Moscow's street children, products of the widespread family breakdown that the collapse of the Soviet empire and the end of communism brought with them.

In 2002, Vladimir Putin, Russia's president, declared that the problem of child homelessness in Russia had reached “threatening proportions”. The nation's runaways then numbered in the millions. New shelters were opened, and the police were given powers to pick up homeless youngsters. Yet last year the interior minister declared that Russia was living through a new wave of child homelessness, comparable to those induced by the civil war and the second world war.

One of its casualties is Dasha, a girl who says she is 17 but looks younger, androgynous and drug-addled. She spends her days sniffing glue and floor lacquer at Kursky railway station, paid for by begging. (Outside restaurants in the evening is best, she says, but “There are not many kind people” in Moscow.) The gang of kids who sniff drugs, explains Dasha, fights with the gang that injects instead; Dasha has a scar on the bridge of her nose from a brawl with a girl who, she claims, stole 65 roubles ($2.30) from her. She and other Moscow youngsters get some help from Médecins Sans Frontières (MSF), a charity that runs a street-children project in the city. On most evenings, Dasha takes the train to suburban Podolsk, and sleeps in the entryway of an apartment building. What does she think will happen to her in the future? “There is nothing to think about.”

There are perils besides the drugs and the rival gangs, especially during the winter. Like some handicapped people, homeless children are forced by criminals to beg or steal, says Alexei Nikiforov of MSF. But the biggest problem is the police and their brutality. And the hardest time is the middle of the night, when the station administrators are away and the policemen get drunk.

In Kursky station, the children nickname the worst of them “Horse-head”. Despite a government decree that stations should accommodate the homeless during the recent Arctic cold snap, Horse-head drives them out of the warm places, says Dasha, and attacks them. The police, adds the city's Mr Pentukhov with some understatement, “are not an organisation you can turn to for help.”“They beat us with sticks and tell us to go outside,” says Kadzhi, a homeless man who also sleeps in the station, “but how can we? We'd die out there.” In the summer—and if all else fails, in winter too—the Kursky kids have found a frigid fetid cavity beneath a railway platform, with an earth floor and littered with filthy blankets.

As is the case with homeless people in other countries, only more so, lack of a fixed address and of proper identity documents makes escaping the streets of Moscow difficult. “With a document you are a man,” ran an old Soviet saying; “without one, you are nothing.” This extra-legal status also blights the Moscow life of another, overlapping and even larger shadow community: another one visible, if you look closely, against the white of the snow.

Strange fruit

Moscow is not, in general, a city that works. The two conspicuous exceptions are the Metro and the central heating. Less obvious, but also formidable, is the vast snow-shifting industry that keeps the city at least semi-functioning for (roughly) five snow-bound months each year.

It snows, on average, 50 times a year in Moscow. Two metres of the stuff fell last winter. Faced with foreign invaders, the winter and the snow have been one of Russia's most important assets; in peace-time, they are a massive economic burden. In Moscow, the enterprise of scraping the snow off the streets and pavements, forming it into snow hillocks, carting it off in 6,000-odd snow vehicles for dumping or melting, and finally zapping it with chemicals to speed the thaw is vast and costly (which helps to explain why Yuri Luzhkov, the city's mayor, threatened last year to fine meteorologists who make wrong forecasts). The motor of this enterprise is a legion of migrant workers, mainly from the Caucasus and Central Asia.

AFP

A better view than the station

Snow is the city's winter crop, the season's main chance for men such as Marat and Mukhtar from Kirgizstan, who clear it from courtyards and side streets in central Moscow. (The pavement outside Mr Luzhkov's nearby office is defrosted by underground heating.) Marat has three children at home; both men earn 7,000 roubles a month, much more than they could hope for in Kirgizstan. The city, they say, pays its street staff 1,000 roubles more in the snowy months to compensate for the back-breaking nocturnal clean-ups. Mukhtar and Marat say they live on around 2,500 roubles and send the rest home. Even at minus 25°C, they say, the work is too hard for them to get cold.

Mukhtar and Marat are lucky, because their snow labour is legal. The city authorities arrange the two things they need to work in Moscow officially: a work permit and their residential registration (though money is deducted from their salaries to pay for the paperwork). From tsarist times, living in Moscow has been a privilege rather than a right, even for Russians. After three days in the city, all foreign newcomers must register their addresses with the authorities. In theory, explains Svetlana Gannushkina of Migration Rights, which provides legal support to immigrants, registering should be easy; in practice, it requires the goodwill of landlords, the co-operation of the police

and, frequently, bribes. Getting a work permit, which the employers themselves must do, is also costly and complicated.

Last year, according to the federal migration service, 750,000 work permits were issued for foreigners to work in Russia. But 10m-14m people, the service reckons, are in the country illegally. The vast majority come from Russia's ex-Soviet neighbours, where living standards fell further and faster when the Soviet economy disintegrated than in Russia itself. In the West, Russia is seen as a middle-income country with important raw materials and a few extravagant oligarchs; in Central Asia and the Caucasus, it is considered the land of opportunity. Tajikistan, torn by war and narco-trafficking and the very poorest of the ex-Soviet republics, is thought to derive around 20% of its GDP from remittances. Every third household in Moldova is said to have a family member working in Russia. Around 3m of these illegals are believed to be scratching a living in the capital.

Like many economic migrants around the world, those who make for Moscow tend to be aspirational and moderately well-educated, but see their social status dip when they arrive as they take up jobs that native Muscovites balk at. When Boris first came to Moscow from Tajikistan, for example, he wanted to go to medical school. But he says he couldn't afford the bribe that was needed to stay in education. So he ended up working illegally on a construction site run by a Turkish company and living in an on-site barracks. Many others like him live in subterranean digs under Moscow's markets, or in boiler and storage rooms, jerry-rigging electric heaters when the temperature falls. Nine Tajiks, said to have been living in a caravan, died in a fire in the Moscow region last week. When the Turks didn't pay him for three months, Boris says, he left.

Refusal to pay salaries is a common scam on the construction sites that soak up much of the immigrant influx during the spring and summer. Muhammad Islamov came to Moscow from Uzbekistan, looking, he says, for political asylum. For six years he has been living in barracks. Last winter, he worked clearing away the snow for a group of dachas outside the city: “heavy work”, Mr Islamov says. Then last summer, he and five other men worked for three months building a dacha. They were given enough food, he says, to stop them dying of hunger, but were paid “not a kopek”. When the work was done, he says, all six of them were arrested and beaten by riot police, who, he believes were in league with the contractor. Mr Islamov has a minutely itemised account of his unremunerated work, scale drawings of the dacha, and a hospital report about the damage to his ribs from the alleged beating, plus copies of his fruitless correspondence with local prosecutors about the swindle.

But he is better off than some. The trouble, says Gauhar Dzhuraeva of the Tajikistan Foundation, a group which helps immigrants in difficulty, is that if a worker is not properly registered, “after three days you can do what you want with him.” Without the proper documents, immigrants are liable to deportation if stopped by the police. And they are likely to be stopped: a monitoring project by a human-rights organisation, borrowing its methodology from racial-profiling research in America, found that Central Asian and Caucasian immigrants are 21 times more likely to be questioned by the police in metro stations than are Slavs.

As a result, many are confined to modern-day urban gulags. Passports are often confiscated by employers; sexual slavery and the sale of human beings are not uncommon. Even a work permit offers limited protection: since it is non-transferable, it makes a worker wholly dependent on his employer, a relationship that many abuse. When he met *The Economist*, Mr Islamov was raising money for a friend from Tajikstan who had been forced to dig a trench on the coldest day of January. His frostbitten feet needed surgery afterwards.

Cold comforts

Some in Russia, including in the federal migration service, want to do something about this system, or the lack of one—for Russia's benefit, if not for the migrants themselves. Russia has the demography of a country at war: its population is shrinking at the rate of around 750,000 people a year. Only managed immigration can fill its medium-term need for able-bodied adults. The migration service has been experimenting with the “legalisation” of migrants in pilot regions across Russia. It is lobbying for a comprehensive government scheme to bring people in, and for a simplified registration system.

AP

Glamour amid despair

Unfortunately, as Elena Tyuryukanova, an expert on migration at the Russian Academy of Sciences, delicately puts it, the interests of the state, and of particular individuals who represent it, are not aligned. In other words, the current shambles may simply be too profitable to scrap.

A deported migrant cannot return to Russia for five years. This makes the threat of deportation an extremely lucrative one for the police to wield. Even if a foreigner's registration documents are real, says Mr Islamov the Uzbek, policemen are liable to seize them and demand a bribe: “These are our rights,” he says ironically. Fitting migrants up on drugs charges—or threatening to—is another earner. Many migrant workers, it is said, have taken to sewing up small amounts of money in their coats, to have something left over after they are frisked. Ms Dzhuraeva says that 70% of the problems she deals with involve the police. They are sometimes darker than mere extortion. According to her organisation, one Sadri Beknazarov set off at the beginning of the winter to wire $700, saved from his job on a construction site, back to Tajikistan at a bank. Policemen intercepted him; he hasn't been seen since. The police refuse to comment.

There are other predators. Ms Tyuryukanova says that the complexion of the immigrant community is changing, as the proportion that comes from Central Asia rises and the quotient from Slavic Ukraine falls. Thus the “cultural distance” between the mass of newcomers and the host community is widening. At the time of the riots in France last year, Russian commentators voiced anxieties about the growing, unintegrated foreign communities living in the capital. But in truth the risk of insurrection by Moscow's unorganised, beleaguered Uzbeks and Tajiks seems slim.

Conversely, their chances of suffering violence are rising. The Tajik Foundation has a horrific video of Russian yobs beating a Tajik man to death in a Moscow school-yard early in the winter. Skinhead violence is booming in Russia, a vicious corollary of the increasingly strident nationalism of mainstream politics. A number of foreign students have been murdered in St Petersburg; a man

from Mali was killed there two weeks ago.

Other migrants meet less dramatic ends on the snowy streets of Moscow. Nearly half its homeless have come to the city from outside Russia—especially, says Mr Pentukhov, the social-services manager, from Tajikistan and Ukraine. They come looking for work, then run out of money and can't get home. Some finish up among the “snowdrops” of the thaw. And work itself can be perilous, especially in the winter, when workers clamber across roofs clearing the snow and scraping off icicles, often without safety harnesses.

Last year, a British woman living in Moscow found a Tajik man lying on his back in the street in a plush central neighbourhood. He had fallen four storeys from the roof he had been clearing. He was still alive, she thinks, when the police happened on the scene, but they only looked at him, smoked a cigarette and drove off. For 40 minutes, she estimates, until an ambulance took him away, he lay on his back in the street, his blood seeping into the snow.

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The presidency

Not a good week

Feb 16th 2006 | WASHINGTON, DC
From The Economist print edition

Abu Ghraib, Katrina, Jack Abramoff, Scooter Libby, Guantánamo, even Dick Cheney: familiar names have returned to haunt George Bush

Get article background

GEORGE BUSH wanted to talk about health-care reform this week, but the media wanted to hear about the health of only one man: the 78-year-old lawyer Dick Cheney accidentally shot in the face while hunting (see Lexington). It's hard to interest reporters in complex issues when there's a simple, dramatic story to tell. So the president's spokesman spent the week fielding incisive questions such as: “Would this be much more serious if the man had died?” And Mr Bush's agenda languished.

Most second-term presidents have trouble getting things done. In Mr Bush's first term, Republicans worked hard to get him re-elected, so they hesitated to criticise him, says Charlie Cook, a political analyst. “Today there is a realisation that every Republican in the House and 14 Republican senators will have their names on the ballot this November, while the president's name will never be on one again.”

Hence the growing signs of indiscipline among Mr Bush's famously loyal footsoldiers. This week, House Republicans issued a damning assessment of the administration's response to Hurricane Katrina. Other Republicans are expressing doubts about the legality of Mr Bush's warrantless wiretapping programme or grumbling about his reluctance to say more about White House contacts with Jack Abramoff, a crooked lobbyist. And fresh embarrassments keep flowing from

Guantánamo Bay, Abu Ghraib and the prosecution of Mr Cheney's former chief of staff.

The hoo-hah about the hurricane is perhaps the most damaging. A Republican House committee issued a report on February 15th spreading blame in all directions. Despite adequate warnings, the governor of Louisiana and the mayor of New Orleans dithered before ordering an evacuation. The media spread false stories about rape and murder (some of them gleaned from politicians such as the mayor), and visiting celebrities such as Sean Penn and Oprah Winfrey distracted emergency workers from their duties.

All the same, much of the blame ends up with the administration. The president was briefed too late about the broken levee, and acted too late to alleviate the resulting calamity. And Michael Chertoff, Mr Bush's homeland-security chief, is roundly criticised.

As if that were not bad enough, the Senate heard this week of massive waste and fraud in the disbursal of disaster-relief funds. The Department of Homeland Security's inspector-general mentioned $900m spent on 26,000 mobile homes for evacuees. Since “regulations prohibit using mobile homes in flood plains,” he said, they “cannot be used where most needed.” Indeed, nearly 11,000 are now “sinking in the mud” in Hope, Arkansas.

Moreover, the Government Accountability Office found that it was laughably easy to pose as a flood victim and finagle a $2,000 cheque intended to keep newly-homeless families fed. Those applying for the money by telephone faced “no independent verification” of their identities. One couple submitted 23 applications using 21 bogus Social Security numbers and netted $46,000. Some of the evacuees who received $2,000 debit cards used them to buy, for example, a $1,300 pistol from Elliot's Gun Shop in Jefferson, Louisiana, a $400 massage at the “Swedish Institute” in Irving, Texas and various other things “that did not appear necessary to satisfy immediate emergency needs”, as the GAO rather stiffly put it.

On the warrantless wiretapping front, Mr Bush can safely ignore Democratic calls for his impeachment, at least until November. But he has had to pay attention to Republican grumbles. Heather Wilson, a Republican representative from New Mexico who faces a tricky re-election battle this year, has called for a congressional inquiry. Heavyweight Republican senators such as John McCain and Arlen Specter have raised sharp questions.

The White House has responded with vigorous lobbying. Spies have assured the public that the current wiretapping programme, had it existed before September 11th 2001, would probably have netted some of the hijackers. Meanwhile, lawmakers are being briefed more thoroughly than before as to how the system works.

Modern data-mining techniques allow computers to spot patterns that might previously have passed unnoticed—such as large volumes of texts or e-mails to and from areas where al-Qaeda leaders are thought to be hiding. Clearly, it makes the spooks' jobs easier if they can act quickly to monitor suspicious calls.

But it is far from clear that the president has the authority, as he claims, to let them do so without a warrant when one of the eavesdropped parties is on American soil. And the sheer size of the government's list of possible terrorists and their associates—it includes 325,000 names, according to the *Washington Post*—leads some to suspect that the net is being cast too wide. Some Republicans would like to tweak the law to give Mr Bush the powers he says he needs. But that would imply that he didn't have them before, ie, that he has been breaking the law. He insists he has not.

Two prosecutions continue to cause presidential headaches. A photograph of Mr Bush and the lobbyist Jack Abramoff, who has admitted to conspiring to bribe politicians, was published in the

latest issue of *Time* magazine. Worse, Mr Abramoff boasted that Mr Bush knew him well enough to ask about his children, and that he had close contacts with Karl Rove, Mr Bush's main political adviser.

Mr Bush's opponents say the president lied when he said he could not remember meeting Mr Abramoff. But the photo is hardly a gotcha: Mr Abramoff's bearded face is barely visible at the back of a crowded room. Nor are Mr Abramoff's claims of intimacy conclusive. Politicians are often briefed about the people they meet, especially if, like Mr Bush, they meet tens of thousands. And Mr Abramoff's word is not, as several Indian tribes discovered, wholly reliable. All the same, some Republicans are urging Mr Bush to reveal all the details of when Mr Abramoff came to the White House, whom he met, and what they talked about.

To complete the list of domestic distractions, Lewis “Scooter” Libby, Mr Cheney's former chief of staff, who has been indicted for perjury and obstruction of justice in a case concerning the leaking of a CIA operative's name, has told investigators that his bosses had instructed him to leak information from an intelligence report about Iraq. Democrats hope this will bring the scandal closer to Mr Bush, though there is no evidence that Mr Cheney ordered Mr Libby to leak classified data.

Abu Ghraib, again

Meanwhile, Mr Bush's war on terror and his country's reputation abroad are being undone by two other familiar names. On February 15th, an Australian television channel broadcast previously unseen pictures of Iraqi prisoners being abused by their American guards in Abu Ghraib jail in 2003. The pictures, whose publication the Pentagon had stopped in America, showed half a dozen corpses, and some gruesome variations on the kinds of abuse for which eight American guards have already been jailed. Even if the American media still seem reluctant to show the images, they have given an old scandal new life in much of the rest of the world.

Guantánamo Bay is also back in the news. The United Nations Human Rights Commission is expected to release a report calling for the immediate closure of the American military prison in Cuba, and the prosecution of all officials responsible for the alleged torture of detainees there. The White House will no doubt dismiss this, pointing out that al-Qaeda terrorists, if captured, have instructions to cry torture. But human-rights lawyers representing some of the prisoners say the evidence against many is flimsy. Some is based on hearsay, or the word of other Guantánamo prisoners subjected to lengthy interrogation. An investigation by the non-partisan *National Journal* concluded that “some, perhaps many, are guilty only of being foreigners in Afghanistan or Pakistan at the wrong time.”

It is a mark of Mr Bush's difficulties that the only person to help him this week was Saddam Hussein. ABC News aired tapes purporting to be of the Iraqi leader discussing ways terrorists might attack America with weapons of mass destruction.

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New York survives

The perfect storm

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Reuters

Was there ever a better example of how New York City has changed? A record-breaking 26.9 inches (68cm) of snow fell in Central Park on February 12th, and the city did not grind to a halt. There was no chaos, not one blizzard-related death, no Katrina-like breakdown in order. Instead, the streets were gritted in advance, the snow ploughs were ready and willing, and the city's sanitation workers were cheered on as if their nickname, “the Strongest” actually meant something, rather than being a desperate attempt to boost the morale of people who would rather have been cops (“the Finest”) or firefighters (“the Bravest”). The previous record fall—26.4 inches in 1947—claimed 77 lives and paralysed the city. In 1978 a mere 18 inches closed down schools and a 1983 blizzard prompted some frostbitten looting. Even in 1996, well after the city's modern renaissance had begun, a mere 20 inches caused power cuts, closed down several Broadway shows and gave the city's control-freak mayor, Rudy Giuliani, a chance to shut the city streets to non-emergency traffic and, as the *New York Times* put it, “all but declare martial law”. Admittedly this year's storm was well-timed, getting heavy only after the Saturday-night crowd had left the bars and ending after Sunday lunch, in time for New Yorkers to head to Central Park to make snow angels. But it has given encouraging proof that, unlike Moscow (see article), the city does not show its worst side in the snow.

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China-bashing

Portman's complaint

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Can the White House hold back rising Sinophobia in Congress?

DURING the 2004 presidential campaign, the White House withstood the lure of China-bashing. While John Kerry promised to get tough with the regime in Beijing and congressmen of both parties branded China an unfair trader, George Bush's team, to its credit, rejected calls to threaten tariffs to force the Chinese government to revalue its currency.

This year, standing firm against Sinophobia could prove trickier. The White House is weak. Congressional Republicans are nervous about losing seats in November's mid-term elections. And the anti-China fervour on Capitol Hill has, if anything, become stronger.

Politicians are wary of China on many fronts. Defence hawks worry about Beijing's military clout. Conservatives who have long complained about the country's human-rights abuses are now much exercised by the role of American internet firms in the trampling of individual freedom. On February 15th, for instance, managers from Yahoo!, Cisco, Microsoft and Google were hauled to a congressional hearing called to consider whether the internet was “a tool for suppression” in China. Chris Smith, a conservative Republican from New Jersey, is drafting a bill that would require such firms to keep computer servers out of countries, principally China, that abuse human rights.

The protectionist urge

For most congressmen, however, the biggest problem with China is trade. They claim that Beijing's cheap currency, refusal to respect intellectual-property rights and general inability to play by the rules is harming America's economy. The swelling bilateral trade deficit between America and China is seen as “proof” that China is an unfair trader. New figures show that the bilateral deficit jumped by a quarter last year, to reach a record $202 billion.

In the House, one group of Democrats wants to create a trade enforcement office in Congress, allowing lawmakers, rather than the administration, to issue indictments of America's trading partners. Meanwhile, in the Senate, Byron Dorgan, a Democrat from North Dakota, and Lindsey Graham, a Republican from South Carolina, want to rescind China's “permanent normal trading” status, granted in 2000, and return to an annual review. That would be against the rules of the World Trade Organisation—as would a 27.5% tariff on Chinese goods that Mr Graham and Charles Schumer, a Democrat from New York, want to impose unless Beijing revalues its currency. Mr Schumer wants a vote on this bill in March.

These bills are more about political posturing than making laws, but they show Congress's mood. More moderate but still dubious ideas, such as imposing anti-subsidy duties on China, have widespread support. More than 20 anti-China bills are now sitting in the congressional hopper,

according to Gary Hufbauer of the Institute for International Economics. The worry is that the Republicans will allow some sort of law through this year, if only to inoculate themselves against Democratic attacks in the mid-term elections.

The Bush strategy seems to be to head off the worst legislation by talking tough on China, while sticking to a policy of engagement behind the scenes. Robert Portman, Mr Bush's top trade negotiator, unveiled his “top-to-bottom review” of China policy this week. In his accompanying letter to Congress, he pulled no punches. “Our bilateral trade relationship with China today lacks equity, durability and balance in the opportunities it provides,” he says, before making it clear that America will “use all options available” to deal with this.

Look at the actual report, however, and a subtler picture emerges, detailing the benefits to America of the relationship and playing down the trade deficit. Mr Portman argues that the Sino-American relationship has “matured”, and now goes beyond simply ensuring China's compliance with WTO rules. Echoing his predecessor Bob Zoellick, who is now deputy secretary of state, Mr Portman believes that a more modern China has to behave as a “responsible stakeholder” in the global trading system. His proposals are modest, such as the creation of a new “China enforcement task-force” within his own office (similar units already exist in the Commerce Department).

Will this two-track strategy (sounding tough, acting reasonably) work? The hope is that the rhetoric will give moderate congressmen in both parties just enough ammunition to fend off their more extreme colleagues. A lot depends on whether Mr Bush recovers his popularity with the electorate (which would give Mr Portman more clout with Republicans in Congress), and on whether China-bashing shows more sign of attracting voters than it did in 2004. The White House may minimise the damage. But brace yourself for a Sinophobic law of some sort before the mid-term elections.

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The economy

The Alan and Ben show

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A messy departure and a smooth debut

Reuters

And the pension isn't bad

FOR such a consummate performer, the maestro's exit turned out to be a little messy. Only days after retiring from the Federal Reserve on January 31st, Alan Greenspan was back in the headlines. Rumours of his hawkish comments about interest rates at a private dinner sponsored by Lehman Brothers briefly ruffled financial markets. Meanwhile, eyebrows were raised at the speed with which the ex-central banker was cashing in on his kudos.

Mr Greenspan was reportedly paid more than $200,000 for the speech and well over $100,000 for a video-consultation with Japanese investors earlier the same day. He has broken no rules; but taking just one day of your retirement to race past your annual salary at the Fed ($180,000) might give the impression you are a pensioner in a hurry.

Mr Greenspan's successor, Ben Bernanke, in contrast, made rather an accomplished debut. This week, the new Fed chairman presented the Humphrey Hawkins testimony to Congress, the central bank's semi-annual report on the economy and a well-known ritual.

Mr Bernanke's testimony had few surprises. It was upbeat (“the economic expansion remains on track”) and, as expected, somewhat stern on the subject of inflation. He noted the risks of further inflationary pressure and made clear that more interest-rate hikes may be necessary. Although he admitted the housing market could “decelerate more rapidly” than expected, he seemed unconcerned about a housing bust.

The new chairman went out of his way to stress continuity with the Greenspan regime. While touting the benefits of transparency for central banks (“fresh air is good for the Federal Reserve”), he eschewed any radical changes. Mr Bernanke may want the Fed to adopt a more formal target for inflation, but any shift will be done gradually.

Mr Bernanke's style, however, was different from Mr Greenspan's. His answers were short and concise (which is more than can be said for the lawmakers' often rambling questions). Unlike Mr Greenspan, he refused to offer specific advice to Congress on how to deal with America's “very serious long-term fiscal problem”. The politicians were impressed and markets moved up a notch. Mr Bernanke's bank balance may lag his predecessor's, but in terms of reputation the newcomer had a better week.

The environmental movement

Endangered species

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Feuding and on the defensive, America's greens are in a political rut. And it's not all George Bush's fault

HOWARD and Kate, Los Angeles lawyers, hand round the wine and sandwiches; the neighbours leaf through the pamphlets; the guest speaker goes smartly from one flip chart to another. Welcome to a weekend fundraiser for Friends of the River, set up more than 30 years ago in an abortive effort to stop a dam across California's Stanislaus river.

Welcome, too, to the diverse world of American environmentalism. Friends of the River, with 6,000 members now dedicated to protecting all California's rivers, is just one group among thousands, from the nationwide Sierra Club to Pennsylvania's Allegheny Land Trust, that seek to minimise man's impact on nature.

America's environmentalist movement has undeniable potential clout and a huge reservoir of public sympathy. A Yale University survey reckons that three-fifths of voters consider the nation's environment to be “only fair” or “poor”, and two-thirds believe the federal government should do more to protect it. Most Americans believe that global warming was partly to blame for Hurricane Katrina and that “continuing environmental improvements must be made regardless of cost.”

However, the movement finds it hard to turn this into political success. Under George Bush, it has been stuck in grumpy opposition. And it has conspicuously failed to make any of the Bush administration's alleged sins—its weakening of environmental standards, its determination to allow oil drilling in the Arctic National Wildlife Refuge, its scorning of the Kyoto Protocol—count against the president or his party at the ballot box. Across the movement there is a feeling of trying to hold a fast-breaking line.

Arguably, that feeling is overdone. Many of Mr Bush's most fiendish plans remain trapped in Washington's legislative labyrinth: they include drilling in Alaska and the “Clear Skies” initiative (which would weaken measures to control industrial air pollution).

But there is no guarantee they will stay trapped. Holding the line on Alaskan drilling depends on Senate filibustering—a procedural defence that makes many Democratic senators nervous, especially when their constituents complain of high petrol prices. Meanwhile, other allegedly unverdant bills are making progress. The House has already passed one sponsored by Richard Pombo, a California congressman who flaunts a rancher's Stetson, that would weaken the Endangered Species Act by requiring the government to compensate landowners for limits on land use.

It is not just a matter of legislative retreat. Greens are losing ground in two ways. First, they are often seen as too left-wing. A poll conducted two years ago for the conservative Centre for the Defence of Free Enterprise found that 61% of voters reckoned “environmental groups usually push

for solutions that are too extreme". Second, their message is fragmented. As two of the movement's iconoclasts, Michael Schellenberger and Ted Nordhaus, argued in a now notorious 2004 paper called "The Death of Environmentalism", the movement is split between special interests and has no overall vision.

So what has gone wrong? One possibility is that environmentalists have been misled by their past success. Although the Sierra Club can trace its history back to 1892, modern environmentalism is mostly a product of the Woodstock generation—of "Silent Spring", a 1962 book that exposed the effects of pesticides, of the Whole Earth Catalogues, which were launched in 1968, and of Earth Day, which was first celebrated (by some 20m Americans) on April 22nd 1970. This activism led to startling advances: the National Environmental Policy Act (1969), the Clean Air Act (1970), the Clean Water Act (1972), the Endangered Species Act (1973) and so on.

Yet the very success of these laws has created two problems for the movement. The first has to do with the relevance of the message. For instance, if you look at endangered species, the grizzly bear population has recovered so well that some want them taken off the endangered list; there are now 27m white-tailed deer and 4.2m wild turkeys, both species once thought close to extinction. Similarly, the air in Los Angeles is hardly healthy but the smog is much better than it was in the 1970s.

Too many lawyers, not much heart

The other legacy of all that law-making in the 1970s is organisational. It shifted the environmental movement's focus from protest (trying to change the law) to advocacy (trying to apply it). The Sierra Club, which now has 750,000 members (compared with 114,000 in 1970), can still mobilise individual Americans. "You try to put a highway through the Great Salt Lake", says one official, "and our members will be there!" But much of the club's effort now goes into lobbying and education.

The pioneer of advocacy is the 35-year-old Natural Resources Defence Council. It has doubled in size in the past five years and now boasts 1.2m activists, though only 720,000 are dues-paying members. Its strength is its permanent staff of 276 scientists, policy wonks and lawyers. They have played a decisive role in dozens of environmental victories, from the phasing out of lead in petrol in the 1970s to stopping the navy in 2003 from using a sonar system that would have deafened or even killed whales.

Grassroots activism and "grasstops" advocacy are not mutually exclusive. Some 440 groups, including the Sierra Club and the NRDC, form the Endangered Species Coalition (set up to see off Mr Pombo). But there are also deep divisions everywhere you look. Some greens see nuclear energy as an answer to global warming and fossil-fuel dependence; most oppose it as the most dangerous fuel of all. Some think "clean coal" technology is a potential breakthrough, but West Virginia's Friends of the Mountains has "reservations about a technology that sweeps CO2 under the rug for our descendants to deal with." There are also rows within organisations—such as the battle within the Sierra Club about whether to oppose immigration on the grounds that greater numbers hurt the environment.

Even consensus on principle—such as over the need to promote alternative energy—often breaks down in practice. For instance, to its supporters, a proposal to build 130 giant windmills off Cape Cod will help battle global warming. Robert Kennedy at the NRDC disagrees; the wind farm will be bad for local fishermen, migratory birds and the horizon, and will be "financially feasible only because the federal and state governments have promised $241m in subsidies." But then other greens claim his motives are not so pure. They say that Mr Kennedy, like his uncle Ted, is interested only in protecting the view from the family compound at Hyannis Port. And so the row

blows on, green against green.

Mr Kennedy sees the diversity of the environmental movement “as an emblem of its health”. He compares it to the civil-rights movement, where Malcolm X and Martin Luther King “seldom co-ordinated efforts as they marched toward a common goal.” Messrs Schellenberger and Nordhaus view the diversity as fatal incoherence, hence their call for environmentalists to unite around the Apollo Alliance, founded three years ago to give the green movement its equivalent of President Kennedy's pledge to send man to the moon.

The problem is the alliance's similarity to motherhood and apple pie. Apollo's mission involves investing in technology to create an economy that runs on clean and sustainable energy, creates millions of jobs and demonstrates that a “just, environmentally balanced and economically prosperous future is attainable”. Those signing on to this deeply uncontroversial vision are mainly liberal groups (the mineworkers' union, Greenpeace, the Ford Foundation and Ben & Jerry's). But it is hard to imagine Mr Bush, the dread Mr Pombo or even the head of Exxon-Mobil disagreeing with such aims.

Red states, green hearts

That points to the biggest practical political question: whether greens should fight the Republicans tooth and nail or look for common ground. The tendency is to see the Bush administration as the devil incarnate. Gale Norton, the interior secretary, used to be a lobbyist for a company that produces titanium dioxide pigments and she once defended some industries' “right to pollute”. Stephen Johnson, boss of the Environmental Protection Agency, formerly worked in the chemical industry. The Department of Energy has several officials who entered government from the industries that they now regulate. And don't even get the greens started on Dick Cheney's energy task-force.

But are the Republicans really so bad? In last month's state-of-the-union address, amid all the familiar sops to the energy industry, Mr Bush pledged to pump billions of dollars into alternative energy to wean America off its addiction to oil. Many of the country's most verdant laws have been signed into law by Republican presidents, from Theodore Roosevelt, who created America's magnificent system of national forests, to Mr Bush's father, whose Clean Air Act of 1990 pioneered emissions trading as a way to reduce sulphur dioxide pollution. That “cap and trade” idea has now been embraced by Republican governors at the state level.

There are also signs of compromise from two important parts of the conservative coalition—Christians and Big Business. “The environment is a values issue,” says the Reverend Ted Haggard, president of the 30m-strong National Association of Evangelicals, which in 2004 sent a message to its 50,000 churches affirming that “God-given dominion is a sacred responsibility to steward the earth and not a licence to abuse the creation of which we are a part.” Meanwhile, many big companies, such as General Electric, now actively support greenery—not least because they think they can make money out of it.

Could today's Republicans therefore take on the greenish hue of their predecessors? Perhaps not immediately. Only 22 House Republicans and six Republican senators voted against last year's unverdant energy bill. But there is still hope. One of the rebels was John McCain, a supporter of carbon caps and an opponent of drilling in Alaska. Imagine a presidential contest in 2008 between the Arizona senator and Hillary Clinton—and perhaps America's greens will no longer need to feel quite so paranoid.

Selling public lands

Today's wood, tomorrow's spa

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The left's latest cause for rage

AMERICAN environmentalists could be forgiven for throwing up their hands and heading north. This month Canada announced the creation of a 16m-acre conservation park along the Pacific coast. Meanwhile, the Bush administration wants to sell some 300,000 acres of national forest land in 35 states, mostly out west. That is about 0.2% of America's forest system—but it would be the biggest such sale in living memory.

The proposal, which is in George Bush's budget, now goes to Congress (the public will also get a chance to comment). The $800m or so in proceeds would go to support rural schools to make up for the cash they used to get from timber sales on federal land. Environmentalists are beside themselves. Suzanne Jones, a Colorado-based director of the Wilderness Society, accuses the White House of selling off the public's land to balance the national budget. There are also howls from Democrats, including Senator Dianne Feinstein of California and Montana's cowboyish governor, Brian Schweitzer.

Auctioning off smaller bits of public land is common and (thanks to rising property prices) lucrative. The Bureau of Land Management recently sold off 4,500 acres around Las Vegas for $1.3 billion. The new proposal involves lots of small bits of Forest Service land: mostly just odds and ends cut off from America's main national forests, says the Bush administration.

Greens, currently poring over maps, say that is no defence. Ms Jones points out that “Just because a parcel is isolated doesn't mean it doesn't have important values.” The tracts could be home to rare plants or animals: now, in Colorado, they “will no doubt be covered with condos”.

The main worry for greens is not the land in question, but the precedent a sale would set. “If they get away with it, they'll probably go back for more,” says Bob Clark, a Sierra Club leader in Missoula, Montana. The Senate recently rejected another tidying-up reform proposed by Richard Pombo, a Republican congressman much feared by greens, that would have included selling off 15 national parks and would have collected a lot of cash for the Treasury.

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Lexington

Ready, fire, aim

Feb 16th 2006
From The Economist print edition

A vice-president, a quail and the first glimmer of class warfare in hunting

POLITICALGRAVEYARD.COM is a goldmine for both trivia addicts and congenital time-wasters. Do you want to find out about American politicians who were killed in duels (17 according to the site)? Or about politicians who were murdered (86)? Or politicians who have been to outer space (6)? Or politicians who died while hunting or fishing (14)? Just point and click. But as yet the site doesn't have an entry for politicians who almost kill the poor saps they are hunting or fishing with.

No doubt the good people at politicalgraveyard will soon update their site. Ever since Dick Cheney took aim at a quail on February 11th and hit a 78-year-old lawyer instead, America has been talking of little else. This is not only because Mr Cheney's tragicomic accident seemed to sum up his style of shooting first and asking questions later (hence a torrent of jokes about Mr Cheney's insistence that he was right to shoot despite the failure to find quail in the bushes). It is also because he handled the incident with astonishing ineptitude.

Harry Whittington's wounds were serious: he was pepper-sprayed in the face, neck, chest and rib cage, and rushed to intensive care. But Mr Cheney didn't bother to tell the public that their vice-president had winged a lawyer until the next day (when he got his host to phone her local paper, the *Corpus Christi Caller-Times*) and he didn't give a television interview until February 15th, a day after his victim suffered a mild heart attack. As one ally puts it, “Dick is beyond PR.”

The media has pored over every aspect of the incident: the fact that Mr Cheney had failed to buy the proper stamp for his licence (he subsequently sent $7 to the requisite authorities); that his host was a lobbyist; that the White House initially tried the strategy of treating the shooting as a joke. But one thing was almost entirely ignored—the fact that Mr Cheney was spending his

weekend slaughtering innocent birds in the first place.

In many European countries, no ambitious politician would want to be seen with a hunting rifle in his hands and a cuddly animal in his sights. In America, politicians go to great lengths to get seen doing just that. The classic example of the shooting photo-op was John Kerry's appearance in rather too pristine duck-hunting gear in October 2004. But even left-wingers like Howard Dean and Dennis Kucinich defer to the hunting vote.

And why not? Hunters like to boast that their sport is as American as baseball and apple pie, a tradition shared by young and old, rich and poor, conservatives and liberals. The US Fish and Wildlife Service claims that 80m Americans aged 16 or over—nearly 40% of the adult population—"enjoyed some recreational activity relating to fish and wildlife" in 2001, the latest year for which figures are available. About 13m Americans shoot, and they spend some $20.6 billion a year on their pastime. There is a hunting channel. There are camouflaged Bibles for people who want to read scripture before blasting off. There are also powerful lobbies, from the National Rifle Association to the Safari Club International. The Congressional Sportsmen's Foundation has more than 300 members.

But the reality is not quite so tally ho. The proportion of the population that goes hunting has been shrinking for the past 20 years. The number of hunters fell by 7% in the decade ending in 2001; the number of small-game hunters, including quail hunters, fell by 29%. The main cause of this is economics. Every year America loses 1.5m acres of wildlife habitat and 1m acres of farm and ranchland to development and sprawl. But the real worry for hunters is, or should be, class.

Memoirs of a quail-shooting man

The biggest decline in hunters is taking place among the working class—among the "Deer Hunter" crowd in the small towns of the north-east, the rednecks of the South and the cowboys of the West. Their places are being taken by moneyed professionals, the sort of people who weren't brought up to hunt but who discovered that it is a good way to flash their money and make connections. The number of hunters with household incomes above $100,000 increased by more than a quarter in the 1990s. There are so many *nouveaux chasseurs* strutting around the canyons of Manhattan that both Holland & Holland and Barbour have opened shops there.

Mr Cheney's own expedition was a lot closer to "Gosford Park" than "The Deer Hunter"—a group of fat old toffs waiting for wildlife to be flushed towards them at huge expense. There has also been a big increase in so-called "exotic hunting", where guests not only go after indigenous species such as wolves and bears, but also blast away at imported zebras and giraffes. Convenience is essential for the hedge-fund crowd. Most exotic hunts take place in ranches from which the animals can't escape (Texas has 600). Exotic hunters can shoot elephants from cars or from the backs of other elephants, sometimes the orphaned calves of the victims of previous hunts. For the truly lazy there is "just-in-time shooting", where animals are trained to turn up at certain hours, and "internet shooting", where you can guide the gun from your desk. All this removes much of the inconvenience from hunting. It also removes its main justification—that it is the most natural way of culling local wildlife.

America's anti-hunting movement is tiny by British standards. But it is gathering momentum, with the mainstream Humane Society taking an increasingly tough line and even conservatives protesting about exotic hunting. (The examples above are taken from "Dominion: The Power of Man, the Suffering of Animals, and the Call to Mercy", a remarkable book by Matthew Scully, one of Mr Bush's former speechwriters.) The squall over Mr Cheney's behaviour in Quailgate will probably die down, providing Mr Whittington survives. But the debate over hunting will go on growing.

Haiti's electoral aftermath

The rubbishing of a vote

Feb 16th 2006 | MIAMI
From The Economist print edition

Reuters

A crucial election descends into confusion and mistrust, needlessly tarnishing René Préval's election victory

Get article background

IT TOOK hours of negotiation involving, among others, the United Nations, the Organisation of American States and Haiti's interim government. But finally, late on February 15th an agreement was reached to declare René Préval the winner of a presidential election held eight days before. To many, that outcome had long been clear, despite the confusion that surrounded the counting of the votes.

Earlier in the week, Mr Préval had broken his silence to complain that “massive fraud and gross errors” had stained the electoral process. “The Haitian people are frustrated,” he said. But he called for restraint from his supporters, after they had brought much of the capital, Port-au-Prince, to a halt with barricades of burning tyres and wrecked cars. They were angry after their man's vote mysteriously dropped from 61% early in the count to only 48.7% with 90% of the ballots counted. That was just shy of the overall majority required to avoid a run-off ballot. Only one other among the 33 candidates, Leslie Manigat, who like Mr Préval is a former president, had reached double figures, with 11.8%.

The election, organised by an interim government but backed by a UN mission, was widely seen as a crucial step towards normality. The question now hovering over Haiti is what lay behind the confusion over the count: fraud, or just chaotic inexperience in a failed state with an almost non-

existent democratic tradition?

In earlier talks with UN officials, Mr Préval had insisted on a thorough, internationally verified, review of the count. In response, the government offered an inquiry, but one which excluded outsiders. That added to suspicions. The secretary general of the Organisation of American States flew in to try to resolve the dispute. Brazil, which heads the UN peacekeeping mission, pressed for Mr Préval to be declared the winner. Diplomats at the Security Council in New York insisted that UN officials be involved in the review.

This outside pressure seems to have worked. The electoral council was prevailed upon to exclude 85,000 blank votes, pushing Mr Préval's total to 51.15%. There were many grounds to believe that this outcome reflected the electorate's preference, even if the means by which it was arrived at smacked of the rough and ready.

Despite early chaos at some polling stations, the vote itself went fairly well. About 2.2m people, or 63% of registered voters, turned out. The problems arose after votes had been counted at the polling stations. According to Gerard Le Chevallier, who heads the UN election team in Haiti, many of the tally sheets were incorrectly filled out by poll workers.

As a result, the electoral authority invalidated almost 150,000 votes, many from the capital's slums. That hurt Mr Préval, not only because he was strong in those areas, but because 50% of all votes, including blank and spoilt ones, were required to avoid a run-off. Similarly, many questioned whether at least some of the 85,000 blank votes had not been stuffed into ballot boxes to stop Mr Préval. In addition, tally sheets for some 8% of the ballots disappeared, some when party activists attacked polling stations in the interior. Mr Préval's supporters found thousands of burned ballots still smouldering on a rubbish dump in the capital.

The UN initially said it found no evidence of fraud. But some other election observers criticised a lack of openness by the electoral council. Two of its nine members said they were excluded from its deliberations. “You have to wonder about all this messing around with the tally sheets,” said Mark Schneider, an observer from Crisis Group, a Brussels-based NGO.

The underlying problem is that the interim government, installed after the violent overthrow of Jean-Bertrand Aristide two years ago, represents only one side of Haiti's political divide. Its backers are businessmen and traditional politicians who see Mr Préval as a puppet of the exiled Mr Aristide. They seemed determined to prevent him from being elected.

Mr Préval was a lieutenant of Mr Aristide for much of the 1990s, but the two men are no longer on speaking terms. Mr Préval holds his former ally partly responsible for the murder of two of his best friends. Even so, Mr Préval, like Mr Aristide, draws his support from the other Haiti, of the poorest slums in the Americas where real power rests in the hands of youthful drug gangs.

Now it is Mr Préval's task to try to bridge Haiti's divide. He will need outside help. This week, Kofi Annan, the UN secretary-general, extended the mission's mandate for another six months. It may take much longer to restore a minimum of trust to Haitian political life, let alone reverse the country's economic ruin.

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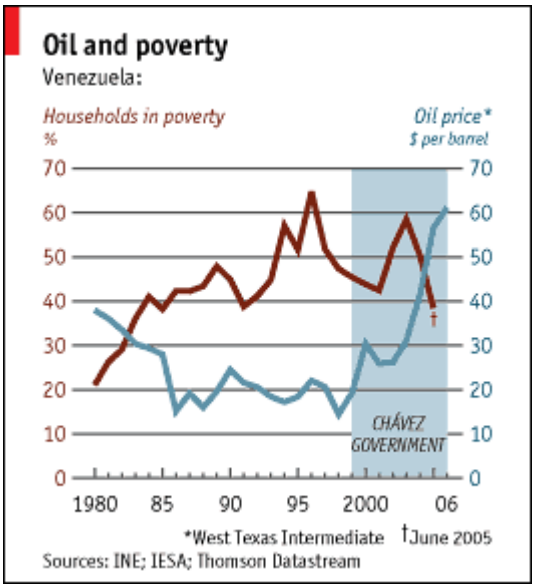
Venezuela

Mission impossible

Feb 16th 2006 | CARACAS
From The Economist print edition

Poverty is at last falling under Hugo Chávez, but not nearly as much as it should have given his country's vast oil windfall

Get article background



TWICE a day, a queue forms outside the barracks of the presidential guard, across the street from the Miraflores palace in Caracas. In the pre-dawn chill, and in the midday heat, hundreds of mainly poor supplicants line up to deliver their petitions. Let down by the state bureaucracy or cheated by corrupt officials, most believe Hugo Chávez, the former army officer who has been Venezuela's president since 1999, is their only chance of salvation. Mr Chávez, who was elected on a promise to end poverty and "social exclusion", has sworn his socialist revolution will achieve this by 2021. The queue in the street hints both at the hope he has inspired and at the inadequacy of his methods.

Higher prices have quadrupled Venezuela's annual revenue from oil exports since 1998. Nevertheless, the country's Catholic bishops claimed last month that poverty was "accelerating rapidly". Not so, replied Mr Chávez . It has "begun to decrease, slowly and progressively".

The issue has become mired in contradictory statistics and competing definitions. But it could hardly be more sensitive for the government. Its bedrock base of support is among the poor: were they to lose hope in what *chavistas* call the Bolivarian revolution, named after the man who brought independence to much of South America, even a divided and incompetent opposition might begin to threaten the president's plans for indefinite re-election. The revolution's appeal to the international far left is largely based on its claim to be an alternative to capitalism that will improve the lot of the poor.

In the five years to 2003, Mr Chávez's performance was disastrous (see chart). The proportion of households below the poverty line increased by more than 11 percentage points. By 2003, a quarter of Venezuelans were living in "extreme poverty", unable even to feed themselves adequately. It was the first time since data were collected that poverty rose even as the oil price did too. Government incompetence was not the sole cause. Acute political conflict, including a two-month strike and business lockout, which shut down the oil industry, played a big part.

Beleaguered, and facing a mid-term referendum to recall him from office, the president hit on an innovative solution. Advised by Cuba's communist government, he began to create the "missions"—emergency health, education and welfare programmes. The missions provide public

services and subsidies to the poor. They are paid for out of a parallel budget, controlled directly by the president without going through the social ministries.

“Inside the Barrio” builds primary health posts, staffed by Cuban doctors. The “Robinson Mission” teaches people to read. “Mercal”, a fast-expanding network of shops and supermarkets, sells staple foods at a 40% discount, boosting the purchasing power of the minimum wage. There are more than a dozen other missions: the latest, named after Simón Bolívar's nanny, is intended to look after street children, drug addicts and the homeless.

Thanks largely to the ever-expanding oil windfall and a huge increase in public spending, the economy recovered strongly from the strike, growing 18% in 2004 and almost 10% last year. Given such growth, it would be remarkable if poverty had not fallen. And indeed it seems to have done. According to an estimate by the national statistics office, in 2005 poverty at last fell below its level of 1998.

Some social scientists distrust the figures. But they may be accurate. “There was a 43% rise in income for social class E [the poorest] in 2005, and 18% for class C,” says Luis Vicente León, of Datanálisis, a polling firm. Since Mr Chávez came to power, class E “has practically doubled its consumption,” adds Armando Barrios, an economist at IESA, a business school.

Unemployment has fallen from around 20% in 2003 to around 10% today. The bad news is that the new jobs may not prove permanent. They are either in a hugely expanded public payroll, or involve the use of idle capacity in the private sector. Mr Chávez's fiery, anti-capitalist language, together with attacks on private property—including the seizure of large farms—has sharply cut private investment. If and when the oil price falls, public spending will be squeezed again.

Whatever the merits of the missions as emergency programmes, they stress quantity over quality. Meanwhile, Venezuela's public infrastructure, such as roads and hospitals, is crumbling. A deficit of 1.5m housing units is widening. Only a quarter of the 110,000 new houses needed each year are being built, because of the public sector's incompetence and its unwillingness to involve the private sector.

Mr Chávez argues that capitalism is the source of all evil: poverty, inequality and corruption are all laid at the door of “savage neoliberalism”. But his seemingly rich and strong state is a hollow shell, says Mr Barrios. In Mr Chávez's Venezuela, institutions count for little, and all important decisions are taken by one man. In the queue opposite the palace, the diagnosis is not so different—except that few blame the president. No one seems to think poverty is abating. “If only there were 50 Chávezes in the country,” sighs Minerva, a middle-aged woman from the outskirts of Caracas. “But he's all on his own. End poverty? That will take 50 years.”

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Peru's water industry

Quenching thirst

Feb 16th 2006 | HUANCAYO
From The Economist print edition

Just don't call it privatisation

THEIR country has lots of fresh water. But fewer people in Peru have access to piped water and sewerage than anywhere else in South America except Bolivia. The government is turning to the private sector to narrow that gap. But privatisation of the water industry has proved politically toxic in Latin America: despite expanding coverage, private consortia have been driven out of both Bolivia and Argentina by popular protest or populist politicians. So Peru is trying a more subtle approach.

The problem is an urgent one. Only 72% of households have piped water, and 51% access to sewerage. Lima, the capital, is perpetually threatened with water rationing. That is partly because Peru's fresh water is in the wrong place. Only 100 miles (160km) or so inland from the Pacific, the Andean watershed diverts all rivers to the Amazon and the Atlantic. But after half a century of migration from the Andean highlands, 70% of Peru's 26m people, most of its industry and its booming export agriculture are all crammed into the narrow coastal desert to the west of the watershed.

The bigger problems are poorly run state-owned water companies, and a collapse in public investment. According to official estimates, more than 40% of water is not billed, because of leaks or unauthorised connections. To reach the regional average for coverage of piped water, Peru needs to invest $4.6 billion, according to the Peruvian Economy Institute, a free-market think-tank. But government investment in water and sewerage has been declining since the late 1990s, and totalled just $43m in 2004.

The government wants to offer private investors long-term contracts, known as concessions, to operate some of the country's 45 water and sewerage companies. The idea is that each contract will be a locally determined variant on a public-private partnership. Soft loans from the Inter-American Development Bank and from the German government will be used as subsidy, to prevent the steep rises in charges that proved explosive in Bolivia. The first contract, for Tumbes, a small city in the north, was awarded last July to an Argentine-led consortium. It is supposed to invest $30m to more than double coverage from its current level of 40%.

Otto Eléspuru, the government official in charge, admits that public hostility to privatisation makes the concessions a hard sell. “We're trying to show people that while privatisation is like selling grandma's jewels, a concession is merely renting them out for the ball but still owning them,” he says.

In Huancayo, in the Andes, the mayor, Fernando Barrios, is pushing a different model. The city's water company will remain publicly owned. The contractor will have to extend coverage to 40,000 families who lack piped water under a performance contract. The investment involved will be financed with a mixture of soft loans and greater efficiency.

Bigger battles lie ahead. Next on the list is Piura, a bigger city where local Catholic priests and NGOs are strongly opposed to water and other public services being run by private companies. They argue that water is a human right, not a commodity, and that the government has deliberately starved the water companies of funds. The biggest fight will be in Lima. Polls show that while *limeños* are dissatisfied with Sedapal, the state-owned water company, they do not want its privatisation.

Peru is due to hold a presidential election on April 9th. Opinion polls suggest that access to potable water ranks fourth in public concerns, after jobs, crime and more paved roads. What to do about Lima's water will doubtless be a decision for the next government. Careful management of water resources should be a national priority, if coverage is to rise and coastal farming to have a long-term future. The obvious solution is to combine private management with targeted subsidies for poorer consumers. Whether the politicians can sell it is another matter.

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Ecuador

The search for roses without thorns

Feb 16th 2006 | QUITO
From The Economist print edition

An industry tries to clean up its image

ASK an Ecuadorean and you may be told that the reason the country's roses grow so splendidly tall and straight is that they are striving to reach the equatorial sun, straight overhead. Whether or not that is myth, the country's cool Andean valleys certainly offer ideal growing conditions for roses and produce luxuriant blooms. No wonder they are much in demand on St Valentine's Day—making Ecuador the largest exporter of cut flowers to the United States after Colombia.

But there is a less romantic side to the flower industry in Ecuador, as there is elsewhere. Critics complain that it employs child labour, and that workers have suffered from exposure to pesticides and punishment for trying to form unions. Some growers are now trying to rid themselves of any unsavoury images by using such unlikely weapons as compost and chicken droppings. Ecuador has become Latin America's largest supplier of organic and “environmentally friendly” roses, using natural fertilisers.

Roses, like lovers, are temperamental. They are prone to bugs. But John Nevado, a Swede, proudly tells visitors to his 40-hectare (100-acre) rose farm, that his flowers have been treated only with low-toxicity pesticides. He says his business meets a host of labour, social and environmental standards. He plans to move into large-scale organic growing. “It is both a matter of conscience and a matter of business,” he says.

Exporters representing almost three-quarters of the country's rose beds have applied for certificates to show that they meet basic environmental and labour standards. Under another programme, almost 500 workers who were under 18 have been registered. Those younger than the minimum working age of 15 have been sent back to school.

All this comes at a price. Though the market for “green” and “organic” flowers is growing in Europe, it is small in the United States. Since Ecuador adopted the dollar in 2000, its rose-growers' costs have risen compared with their Colombian competitors'. Yet Ecuador has held its own. Its flowers tend to be slightly larger and showier, and Colombian growers are adopting many of the same labour and environmental standards.

The rose industry has injected much-needed cash into some of the poorer and more remote areas of the Ecuadorean Andes. Many of the workers are women, which has shifted the balance of economic power within families. If it can continue to do that without harming its workers' health, the industry may yet acquire a truly romantic image.

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Japan

The past's long shadow

Feb 16th 2006 | TOKYO
From The Economist print edition

Can Japan ever acknowledge its atrocities of the 1930s and 1940s in a fashion acceptable to its neighbours?

Get article background

THE five visits to Tokyo's Yasukuni shrine that Junichiro Koizumi has made since he became prime minister in 2001 have thrown relations with Japan's two biggest neighbours, China and South Korea, into the political chiller. Yasukuni, run by Shinto priests, honours 2.4m Japanese servicemen killed in imperialist wars in the 100 or so years after Japan's mid-19th century opening-up. But because 14 executed war criminals, among them General Hideki Tojo, are also enshrined there, Yasukuni has become the site for an exculpatory interpretation of the second world war that plays down or even denies the atrocities that flowed from Japan's militarism, and plays up the notion of Japan as victim not aggressor. Yet roughly 20m Asians died in the 1930s and 1940s, thanks to the Japanese, and many were enslaved, tortured, raped or subjected to medical experiments, including vivisection.

Mr Koizumi has dropped plenty of hints that he does not share this exculpatory version of history. Last August 15th, on the 60th anniversary of Japan's surrender, he offered an unequivocal apology, saying that Japan greatly regretted the suffering that it had caused during the second world war. But his visits to Yasukuni are still viewed with suspicion in those countries that suffered most brutally under Japanese occupation—and Mr Koizumi seems unconcerned about riling them. Last year, both China and South Korea called off summits with Mr Koizumi. Earlier this month, the Chinese Communist Party's official *People's Daily* compared him to someone who insists on eating “rat excrement”. This month, too, a Chinese state councillor and former foreign minister, Tang

Jiaxuan, told a politician from Japan's ruling Liberal Democratic Party (LDP) that there was “no longer any expectation” of better relations between the two countries while Mr Koizumi was in power.

Mr Koizumi is due to step down in September, to Chinese and Korean delight. Yet the Yasukuni issue is not likely to fade with his going. For a start, the Japan-as-victim school is no right-wing group on the fringes of Japanese politics: though small, it is a core component of the LDP. Thus, every apology for wartime misdeeds that a Japanese leader offers is swiftly undermined by others in the ruling party. What is more, the two chief contenders to take over from Mr Koizumi as prime minister and head of the LDP, Shinzo Abe and Taro Aso, are both Yasukuni visitors.

Mr Abe has been circumspect in his public comments since becoming chief cabinet secretary last autumn; but in the past he has usually visited Yasukuni on August 15th, the anniversary of Japan's surrender. The more outspoken Mr Aso, the new foreign minister, is, as far as the diplomats under him are concerned, a mounting liability. From time to time, Mr Aso extols the perceived benefits of past Japanese colonialism, notably in Korea and Taiwan. And late last month he said that since Japanese soldiers of the second world war had died in the service of the emperor, the emperor, too, should visit the Yasukuni shrine.

As it happens, after the enshrinement of the war criminals in 1978, Emperor Hirohito stopped visiting Yasukuni, a stay-away continued by his son, Akihito. Indeed, as Jeffrey Kingston of America's Temple University in Tokyo points out, Akihito has taken other actions to distance the monarchy from nationalists keen to refashion Japan's identity around the throne. Last year, for instance, he visited the site of the battle of Saipan, paying respects not just to Japan's dead, but to Americans, islanders and Koreans forced to fight on the Japanese side.

The imperial family, constitutionally bound now to keep out of politics, can influence the debate only indirectly. On the other hand, opposition to a rising mood of nationalism is coming from an unlikely source from within the conservative establishment itself: the *Yomiuri Shimbun*, Japan's—indeed the world's—biggest-circulation newspaper. Under Tsuneo Watanabe, the group's 79-year-old chairman and an *éminence grise* within the political establishment, the *Yomiuri* came to be the flag-waver for a more assertive Japan, one that argued for a revision of the pacifist constitution foisted on Japan by General Douglas MacArthur in 1947, and that bristled at any foreign criticism of the Yasukuni shrine.

Recently, however, Mr Watanabe has ordered the *Yomiuri Shimbun* to change its tune. Yasukuni, he now says, is the source of all Japan's problems with its neighbours; the *Yomiuri* and its more liberal rival, the *Asahi Shimbun*, have joined forces to push for a state alternative to the shrine, where the war dead can be honoured with less controversy. The LDP, however, has turned this idea down.

In particular, Mr Watanabe reserves his bile for Mr Koizumi—partly, perhaps, out of personal pique that the prime minister does not hang on his every word, as predecessors did. Equating Tojo with Hitler, Mr Watanabe told the *New York Times* last week that “Mr Koizumi worships at a shrine that glorifies militarism. This person Koizumi doesn't know history or philosophy, doesn't study, doesn't have any culture. That's why he says stupid things, like, ‘what's wrong about worshipping at Yasukuni?' Or, ‘China and Korea are the only countries that criticise Yasukuni.' This stems from his ignorance.” The *Yomiuri* is now running a series of articles examining Japan's wartime record, and promises to come up with a “verdict” by August. It is unlikely, though, to lay the past to rest.

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China

Olympian efforts

Feb 16th 2006 | BEIJING
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AFP

Going for gold

With Turin 2006 well under way, Beijing 2008 is fast approaching

TENSE though China's 76 athletes at the winter Olympics may be as they put their training to the test, the pressure on another, larger Chinese team also present in Turin may be even greater. The organising committee for the 2008 Olympics in Beijing has sent 200 staff to Italy to see what lessons they may learn when their turn comes to stage a spectacular.

The people of Beijing rejoiced wildly when their city won its Olympic bid in 2001, deeming it a potent symbol of China's swelling importance. Eager to live up to expectations, the government is determined to make the event a huge success. Beijing is already well along in building its Olympic infrastructure, and no one seems to doubt that all 37 sport venues—14 of them brand new—will be ready on time, as will housing and support facilities. Less successful, though, have been Beijing's efforts to improve its air, long ranked among the urban world's dirtiest.

Upon winning the 2008 bid, Beijing vowed to boost the frequency of what it calls “blue sky” days. But this January saw only nine of them, less than half as many as last January. Car traffic and dusty building projects, Olympic and otherwise, are largely to blame, and the city now plans even sterner pollution controls.

The traffic also clogs the roads. But even if all the roads now under construction fail to relieve the congestion, the city's officials will not hesitate to restrict non-Olympic traffic. Such are the advantages of running an authoritarian state.

The most troublesome issues may concern people rather than objects. One campaign aims to improve the manners of Beijing's notoriously courtesy-free residents, so that hawking, spitting and queue-jumping do not make a poor impression on outsiders. Chinese officials likewise risk looking bad if they fail to reform their own behaviour. Most of the 21,000 journalists set to cover the games will expect more openness than Chinese officialdom usually grants. Human-rights activists and other campaigners may well try to seize the Olympic spotlight. The police will have to handle any ensuing difficulties with restraint. Anything like their usual thuggish response will not go down well abroad.

The Chinese authorities understand these potential hazards, but foreigners working with the local organisers fear they may be unable to avoid them. The national games staged in Nanjing last October were widely seen as a test run for the Olympics, and the outcome was far from encouraging. Despite sterling new infrastructure and impressive pageantry, the event was marred by doping, match-fixing and disputes about referees' decisions.

All these would, of course, be dwarfed by a serious incident involving Taiwan. That is unlikely, but not impossible. Some pundits fear that the island might be tempted to use the approach to the Olympics as cover for steps toward independence, hoping China's fear of wrecking the games would mute its response. On this theory, the most ardent pro-independence forces in Taiwan might think it better to act than to wait: mainland military strength is growing steadily, and a future American administration might be less likely than the incumbent one to defend Taiwan. China certainly takes the idea seriously. A Chinese general, Peng Guangqian, said two years ago that Taiwan was mistaken if it thought China “might not raise a hand because of the Olympics.”

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India and Taiwan

Getting acquainted

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Taiwan's government hopes India may lure its businessmen away from China

LIKE Cinderella, Taiwan has been a late arrival at the Indian ball. Big, ugly step-sister China has stood in the way. Back in 1950, India recognised the People's Republic, not the rival regime in Taipei, and relations with the island have been tenuous ever since. Taiwan now wants to change that. It has become newly aware of India's potential as an economic partner. In the words of Hsiao Bi-kim, who last month led the first delegation from Taiwan's parliament to visit India, "It is in Taiwan's strategic interest to promote India as an alternative investment centre to China."

On February 11th, the Taiwan-India Co-operation Council was launched in Taipei. Chaired by Yu Shyi-kun, a former prime minister, it is intended to raise India's profile among Taiwan's businesses and help persuade them to diversify away from China. This week, as part of the drive, a second delegation of parliamentarians from Taiwan arrived in Delhi.

Nearly two-fifths of Taiwan's exports go to China, which is also the destination for more than two-thirds of Taiwan's total stock of foreign investment. Since China has never renounced what it says is its right to "reunify" Taiwan by force if necessary, this economic interdependence gives its government periodic jitters.

Superficially, India offers an attractive alternative. Its economy is booming. It has tremendous strengths in information technology, where its software prowess seems complementary to Taiwan's hardware expertise. This week, a 24-strong delegation from Taiwan attended the annual conference in Mumbai of India's IT and outsourcing industries. Moreover, as a speaker at a function for the parliamentarians put it, India and Taiwan are "co-religionists"—that is, both of them are vibrant, raucous democracies.

Everyone agrees there is potential, if only because the base is so small. Trade with India accounts for only 0.67% of Taiwan's total. By the end of 2004, Taiwan's investment in India totalled just $116m (compared with, according to understated official figures, $41.7 billion in China). But, as Taiwan's government found in the early 1990s, when it tried, largely unavailingly, to persuade its businesses to diversify into Vietnam and other South-East Asian countries, China has a big magnetic pull: culturally, linguistically and geographically.

George Liu, a member of this week's delegation, expressed the relatively modest hope that Indian

competition might at least force China into better treatment of Taiwan's businesses. Even that is optimistic, given the usual political obstacles. China will balk at anything that smacks of “official” dealings with Taiwan. On February 16th, the Chinese ambassador in Delhi issued a statement warning India “to refrain from sending any wrong signal to ‘Taiwan independence' forces”. Maintaining the recent improvement in relations with Beijing is a foreign-policy priority for India's government—and its firms. So some of Ms Hsiao's delegation, for example, were refused Indian visas. India, it seems, is no Prince Charming.

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The South Pacific

Freedom out of fashion

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Tokelau rejects independence

IN MOST parts of the world, colonialism has been out of fashion for decades. But in the tiny Pacific archipelago of Tokelau, it is the political philosophy of the moment. According to the results of a referendum announced on February 16th, the territory's 600-odd registered voters opted to remain under the colonial yoke, rather than enter into a more dignified “free association” with their current overlord, New Zealand.

In fact, more Tokelauans voted for free association than against it, but not by the required two-thirds majority. The sceptics must have felt that a collection of three coral atolls, with no cars, airport, or even a port, would have no need for the formal trappings of sovereignty. In other respects, the decision makes little difference. No matter how they voted, Tokelauans knew they would still be citizens of New Zealand, while the autonomous government of village elders set up by New Zealand would remain in place. Either way, New Zealand said it would continue to handle foreign affairs and defence on Tokelau's behalf. Above all, New Zealand promised to keep footing the island's bills—to the tune of NZ$9m ($6m) or so every year.

But many Tokelauans are obviously still worried about their homeland's viability as a nation. Nearby Niue and the Cook Islands, two former colonies which have entered into free association with New Zealand, can at least look to uranium mining and tourism, respectively, to boost their economies. But Tokelau's only revenue comes from selling fishing licences, internet domain names, and collectable stamps and coins. To make matters worse, the islands, whose highest point is 5 metres (16ft) above sea level, are prone to cyclones. No wonder far more Tokelauans (7,500) live outside the archipelago than in it (1,500).

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Indonesia

Toothless, ruthless and hard to reform

Feb 16th 2006 | JAKARTA
From The Economist print edition

The new chief of the armed forces inherits a multitude of troubles

THE installation this week of Marshal Djoko Suyanto, previously chief of the air force, as head of Indonesia's armed forces made front-page news. The armed forces formally withdrew from politics only in 2004, when they gave up their reserved seats in parliament, bringing to an end *dwi fungsi*, their dual political and military function. In parliament or out, their commander remains one of the most powerful people in the country.

But the marshal faces tough challenges. Blighted by prolonged western arms embargoes and poor financial management, the 380,000-strong armed forces have “no deterrent capability”, in the opinion of the country's own defence minister, Juwono Sudarsono. Only 65 of the navy's 121 ships and half of the air force's 114 aircraft are operational, while most of the army's 100-odd battalions are under-strength, under-equipped and under-trained.

The good news is that the military's workload is decreasing. Indonesia's two main security threats, terrorism and crime, are steadily becoming the police's domain, and now that Aceh is on the road to peace the only separatist movement, in Papua, poses no significant challenge. Communal conflict in Sulawesi is still a problem, but does not tie up sizeable resources.

One consequence of the armed forces' weakness, say government ministers, is that the state loses some $22 billion a year through smuggling, illegal logging, piracy and other crimes. President Susilo Bambang Yudhoyono has said that he wants to reduce these losses by strengthening the navy and air force. But Marshal Suyanto will have to tread carefully. The army is unlikely to be happy at an air-force man plundering its resources.

Other sensitive missions lie ahead. Widespread doubts about civilian competence mean there will probably be strong opposition to plans to bring the armed forces wholly under the control of the defence ministry's politicians. For the present, the generals still enjoy independence over operational matters.

Then there is the armed forces' penchant for extra-curricular activity. Driven by a combination of tempting opportunities and dire pay—even a major-general's monthly salary is just $260—some servicemen engage in crime, moonlight in business or demand payment from companies in return for protecting their assets. This latter practice is currently under scrutiny following allegations that an American firm, Freeport-McMoRan, paid millions of dollars to individual officers to protect its copper and gold mine in separatist-ravaged Papua. Freeport denies the claims.

Regulating the businesses that provide a sizeable chunk of the armed forces' budget will be another headache for Marshal Suyanto. Of the 219 companies, foundations and co-operatives the armed forces admit to owning, only six have been assessed as commercially viable. By law, the military must cede control of all of them by 2009. But what is a business? Marshal Suyanto, for

instance, is opposed to dissolving the co-operatives, which he claims do much for troop welfare. There are no clear procedures for selling the businesses, or about who keeps the proceeds. Hard pounding indeed for the marshal.

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Kazakhstan

And then there was one

Feb 16th 2006 | ALMATY
From The Economist print edition

What—or who—lies behind the deaths of opposition politicians?

THE murder of one of Kazakhstan's leading opposition politicians, Altynbek Sarsenbaev, shocked the nation this week and has shattered its image as an island of stability in volatile Central Asia. On February 13th, two days after his disappearance, Mr Sarsenbaev, 43, a former minister and ambassador, was found on the outskirts of Almaty, the commercial capital, along with the bodies of his driver and bodyguard. All three had been shot in the back and in the head.

The opposition has called the killing politically motivated and claimed that it was ordered by senior government officials, since Mr Sarsenbaev had neither business interests nor criminal ties. The brutal death was unprecedented in authoritarian Kazakhstan, at least until recently, as was the procession of well over 2,000 people who followed his coffin as it was carried through the centre of Almaty on February 15th.

Mr Sarsenbaev left his post as ambassador to Russia in 2003 to join the opposition party, Ak Zhol (Bright Path), as co-chairman because, says Bulat Abilov, once also a co-chairman, he wanted his children “to grow up in a normal democratic country”. After the party split in early 2005, he was the co-founder of Naghyz Ak Zhol (True Bright Path) and also a member of the united opposition movement, For a Just Kazakhstan (FJK). Indeed, Mr Sarsenbaev was the brain behind the FJK. As a former confidant of President Nursultan Nazarbaev, he knew Kazakh politics better than most oppositionists. His death has weakened the opposition considerably, and is probably bad news for the authorities as well, because he was a reasonable opponent always ready for dialogue.

It is also of note, although rarely mentioned in public, that part of Mr Sarsenbaev's great influence was probably due to his senior position within the ranks of the Alban, a subdivision of the Elder Horde, one of Kazakhstan's three great traditional tribal groupings, the others being the Lesser and Middle Hordes. Another opposition politician, a former mayor of Almaty named Zamanbek Nurkadilov, who was found dead under mysterious circumstances last November, also hailed from the Alban.

The opposition now has to decide how it will react. The chairman of FJK, Zharmakhan Tuyakbai, has condemned the “political terror” and called on President Nazarbaev to return from his holidays. Other opposition figures have openly called on the population to rise up. Sergei Duvanov, an opposition journalist, blamed the murder on “Mr 91 Per Cent”—the president, who has been at the helm since 1989 and won re-election last December with 91% of the vote—for having created the kind of regime that allows such killings to take place.

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South Korea

The king, the clown and the quota

Feb 16th 2006 | SEOUL
From The Economist print edition

Korean cinema comes of age

AP

Better than King Kong?

THIS winter's surprise hit in South Korean cinemas, which has left the Hollywood competition trailing in its wake, has been a period drama centred on a notorious 15th-century monarch and a troupe of entertainers invited to his court. But South Korean film-makers claim the recent commercial and critical success of films like “The King and the Clown”, both at home and internationally, is now threatened by a government decision to halve the protection offered to the domestic industry.

From July 1st, South Korean cinemas will have to show only locally produced films for 73, rather than the current 146 days a year. The cut paves the way for talks on a free-trade agreement (FTA) between South Korea and its second largest trading partner, America, which has long argued that the quota is unfair.

South Korea's screen quota was originally introduced in the 1960s to protect the country's fledgling film industry. The government argues that domestic film-making no longer needs such strong protection. It says that South Korean films have attracted over 50% of box office takings over the past two years, obviating the need for a quota which requires locally produced films to be shown for 40% of the time. The government is also calling on the film-makers to make a sacrifice for the larger national good: an FTA with America could boost South Korea's GDP by up to 2% and create more than 50,000 new jobs, according to the government-funded Korea Institute for International Economic Policy.

But the film-makers say their films are not ready to go head-to-head with Hollywood, pointing out that their production and marketing budgets are a fraction of those for Hollywood fare. They stress—of course—the importance of cultural diversity, and argue that if left to market forces, many South Korean cinematic successes might never have happened.

If the quotas have indeed played a part in protecting home-grown films, they have been a blunt instrument. South Korean film-makers are still as prone to turn a quick profit with a formulaic Hollywood-style flick as experimental and innovative cinema. And while the quota guarantees a degree of distribution, it cannot secure audiences. In a thin year, theatres have had to play to empty houses in order to fulfil their legal obligations. But it is an emotive issue, attracting celebrity protests and mass demonstrations. The closing credits have not yet started to roll.

Palestine and Israel

A dilemma over Hamas and its cash

Feb 16th 2006 | JERUSALEM AND RAMALLAH
From The Economist print edition

The world is divided over how to deal with the Palestinian Authority under Hamas

Get article background

AN ARTICLE this week in the *New York Times*, alleging that the United States and Israel are hatching a plot to destabilise a Hamas-run Palestinian Authority (PA) by starving it of funds, caused a minor furore—and highlighted divisions over what to do about the Islamist party's resounding victory over the secular Fatah in last month's general election. An American diplomat was quoted as saying that the article was planted mischievously by European diplomats, while a European diplomat suggested it was an Israeli attempt to scare Hamas into moderating its stance.

The truth is that the outside world knows what it wants, but cannot agree on how to get what it wants. The Middle East "quartet"—America, Russia, the European Union and the United Nations—says Hamas must end violence, sign up to a two-state solution and accept prior agreements made by the PA. What the members of the quartet cannot agree on is whether—or how—to use the lever of money to enforce those demands.

The result is general confusion. While harder-line elements in the American and Israeli administrations may want to turn off the funding taps, others, especially in Europe, just want to reroute the cash to circumvent rules restricting aid to terrorist groups. This week, for instance, the EU proposed paying the PA's utility bills directly to its Israeli suppliers. There is talk of channelling all cash through the office of Mahmoud Abbas, the Palestinian president—though that, say most,

looks like a particularly flimsy fig leaf. Some infrastructure projects, says an American contractor, could be reclassified as “essential humanitarian assistance” and be provided by the UN. Donors, especially American ones, may use the UN and World Bank, not bound by restrictions, as conduits to sidestep domestic political pressure. Or maybe they will start applying the same pressure to those agencies. Nobody yet knows.

But the largest shortfall is going to be the $55m or so in revenues that Israel collects on the PA's behalf. Israel this week announced that transfers will stop after the new Hamas-dominated parliament convenes on February 18th, even before it forms a government.

The fear is that Hamas may turn to sources the West cannot control. Two weeks ago Hamas was sounding conciliatory, but this week Mahmoud Zahar, one of its hard men, told America to keep its “satanic money”. Hamas leaders are now on a regional fund-raising tour: there is no shortage of donors worldwide who have helped it, and even tided the PA over in previous crises, though for how long they could plug the gap is unclear. America could press Arab leaders and banks not to provide or transfer money, and some might agree, but that would further inflame an already angry Arab street. In any case there are many informal networks—through Islamic charities in various countries, business people, or smugglers—that could let cash trickle through. Russia, which has invited Hamas leaders for talks (to Israel's fury), has a large Muslim population which may offer conduits of its own.

The confusion has also left the donors unsure how to deal with a series of struggles for power within the PA itself. This week the outgoing Fatah legislature defiantly bestowed on Mr Abbas the power to appoint judges to a constitutional court, which could overturn laws: an attempt to declaw Hamas, which would need to drum up a two-thirds majority in parliament to undo it. “It's completely contrary to all the work that we've put into reform and state-building,” says a European diplomat, noting that in Yasser Arafat's time everything was done to weaken the president, “but we're letting them get away with it because it's politically expedient.”

Yet Mr Abbas may not be behind the move; he publicly blocked another proposed law, which would have given him the power to dissolve parliament. Nor does he seem to be encouraging the anti-corruption witch-hunt that began after the election: his attorney-general announced a series of probes (none new), the prime minister's office shows sudden interest in foreign-designed anti-corruption ideas it had ignored before, and lists of targets for prosecution are circulating in the PA.

In fact, such moves seem to be coming not from the top but from officials acting alone, perhaps trying to ingratiate themselves with the incoming government. Hamas has attacked Mr Abbas for appointing Fatah officials to key civil-service posts, but it has been quietly holding talks with top civil servants to ensure their co-operation. “Everything”, says a foreign contractor who works with the PA, “is going green”—the colour of Hamas.

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Iraq

Please try harder to be inclusive

Feb 16th 2006 | DUBAI
From The Economist print edition

Can Dr Ibrahim al-Jaafari do better as prime minister this time round?

AP

The doctor ponders his prescription

FEW Iraqis are inspired by their current and likely future prime minister, Ibrahim al-Jaafari. Yet last week he won, by a single vote, the nomination of the ruling Shia-led alliance to head Iraq's government for another four years. In public he is rather dull. He tends to mumble. He prefers to let his coalition partners make distinct statements of policy. In private, many politicians find him passive but stubborn: a frustrating man with whom to cut a deal.

Sunni Arabs, who make up only a fifth of the population but the bulk of the insurgents, tend to write his Dawa (Call) party off as just another bunch of would-be theocrats. The Kurds dislike him because they say his government broke a promise to resettle Kurdish refugees back in the disputed Kirkuk province whom Saddam Hussein had kicked out. The Americans preferred Dr Jaafari's rival, Adel Abd al-Mahdi. Though he is a member of the Supreme Council for Islamic Revolution in Iraq (SCIRI), generally viewed as even closer to Iran's ruling mullahs than is Dr Jaafari's Dawa, Mr Mahdi is far more outgoing; in his frequent trips to Washington and London he has come across as politically moderate and economically liberal. By contrast, many of Dr Jaafari's fellow Shias have dismissed his present cabinet as placemen out to feather their own parties' nests. There has been little sense of a national strategy. Iraqis across the board often blame it for failing to revive the economy or to stop the political violence.

In any event, Dr Jaafari, 59, may well run Iraq for the next four years. That is due largely to politics within the United Iraqi Alliance (UIA), the Shia alliance that won the election last December. Most UIA voters cast their ballots not for love of UIA politicians but because the alliance best voiced the interests of the long-oppressed Shias; the UIA was thought, above all, to have the backing of the clergy, including Grand Ayatollah Ali al-Sistani, the country's most influential cleric.

A crucial reason for Dr Jaafari's survival as prime minister was the support of the one UIA faction which indisputably has a mass following, the movement loyal to a radical cleric, Muqtada al-Sadr. His group is a bitter rival of SCIRI. Without the backing of the Sadrists, who have more than 30 MPs out of the Shia alliance's 128 in the new 275-member parliament, Dr Jaafari would almost certainly have been ousted.

Iraq's constitution gives him about three months to form a cabinet. Given Iraqi politicians' penchant for negotiating until the last minute, he may need all of it. The Shias have paid lip service to the need to draw all of Iraq's main ethnic and sectarian blocks, especially the Sunnis, into a national unity government. The UIA must also find allies to get the two-thirds of MPs

needed to endorse a president, who, if largely ceremonial, has a big role in overseeing the formation of a government.

Kick out the really bad guys

One of Dr Jaafari's more controversial current ministers is Bayan Jaber, a SCIRI man who runs the interior ministry. Though from the same party as Mr Mahdi, Mr Jaber's wing of it is much more aggressive. Sunni Arabs accuse him of turning the security forces into a sectarian weapon that assassinates members of their community. If Dr Jaafari keeps him on, many Sunnis would find it hard to serve in the same team. The Americans have more or less explicitly said that if Mr Jaber stays on it would affect aid given to Iraq's security services. If Mr Mahdi had been prime minister, SCIRI might have surrendered the interior ministry. But since Dawa's leader got the nomination, SCIRI is now likely to be even more determined to keep it.

Another government-building problem lies with Iyad Allawi, the secular Shia who served as interim prime minister before Dr Jaafari got the job after the general election in January last year. Mr Allawi, whose party has 25 MPs, has good relations with the Sunni parties, but is hated by the Sadrists, whose militiamen fought his security forces during their rebellion in 2004 and who deride him as Baathist: he was once a member of Mr Hussein's former ruling party. As a precondition for supporting Dr Jaafari as prime minister, the Sadrists apparently drew a red line, insisting that Mr Allawi's lot should be excluded from any post in the government.

The Kurds, however, disagree. Jalal Talabani, Iraq's current president, who heads one of the two main Kurdish parties and has been promoting national reconciliation, has drawn his own red line: Mr Allawi's party must be included. With so many red lines drawn in the opening stages of negotiations, room for compromise is already shrinking. One theory is that Dr Jaafari could give up trying to create a wide national coalition and instead make common cause with fellow Islamists among the Sunnis.

When Dr Jaafari does form a cabinet, there is little guarantee that it will be more disciplined or effective than its predecessor, thanks largely to the Sadrists' increased clout. Salam al-Maliki, a Sadrist who has the transport job, is a particularly egregious example of a minister who follows his group's own agenda. He picks fights with the foreign contractors rebuilding Iraq's infrastructure. In September he tried to get a paramilitary force to seize control of Baghdad airport during a pay dispute with a London-based firm that runs airport security. More recently his ministry unilaterally banned dealings with Denmark to protest against the Danish cartoons. Yet Mr Maliki may well keep his job; thanks to the Sadrists' extra clout in parliament, they want more ministries.

Moreover, the Sadrists are perpetually at loggerheads with the Americans and British, often because one or other of their clerics gets arrested for allegedly organising attacks on foreign troops. This week, they are said to have got Basra's provincial council to cut ties with British forces after a film showing British troops beating Iraqis was first aired in the British media and then repeatedly put on Iraqi television. If the Sadrists use their new-found leverage in a similar fashion at a national level, forcing the Iraqi government to back them in local feuds with the occupying forces, the already strained relations between the UIA and the American authorities may fray even more. Dr Jaafari may find it especially hard to get his populist partners to back his government's economic plan, which, under the IMF's guidance, means cutting fuel and other subsidies that swallow nearly half the budget.

A new government has a chance, however, of doing better than its predecessor. Many Iraqis hope that Dr Jaafari, with the prospect of four years in office rather than a transitional year, may acquire more authority to keep his ministers in line. On the security front, having credible Sunnis in government may help it reach out to the insurgents. In the past few months, a number of

guerrilla groups, such as the Anbar Revolutionaries based in Ramadi, a Sunni provincial capital to the west of Baghdad, have become more outspoken against extreme radical groups professing loyalty to al-Qaeda and may be willing to negotiate local ceasefires. Still, the strength of these movements and the ability of Sunni MPs to cut peace deals with them are untested.

So far Dr Jaafari has given little sign of wanting to accommodate the Sunni insurgency. His fellow Shias seem to think their best strategy is to sit back and let the Americans back them in a sectarian war—which the Americans are increasingly loth to do. If Dr Jaafari is to stand a chance of making peace among his fellow Iraqis, he needs to change tack—both in the way he builds a ruling coalition and in how he tries to stop Iraq sliding into a full-blown civil war.

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Botswana

The row about the Bushmen

Feb 16th 2006 | GABORONE AND KAUDWANE
From The Economist print edition

A row over the Bushmen is besmirching Botswana's reputation

THE village of Kaudwane may be less than 300km (186 miles) from Botswana's capital, but it is a world apart from Gaborone's smart buildings and new malls. Scrawny cows roam the sandy roadside, chewing whatever grass they can find. Thatched huts dot the scrubby, empty landscape. The school and clinic apart, brick buildings are few. Here, in Kaudwane, is the new home of people relocated from the Central Kalahari Game Reserve (CKGR), a protected area of 53,000 square kilometres (20,000-plus square miles) in the middle of the country. Their fate threatens to tarnish the image of Africa's shiniest success story.

Survival International, a London-based lobby, has aroused international anxiety about the reserve's indigenous Bushmen, also known as the San, who were once hunter-gatherers. Survival says they have been moved from their ancestral land against their will to make way for diamond prospecting. Bostwana's authorities say that relocation was voluntary and that diamonds had nothing to do with it: traditional hunting had given way to poaching for profit and to livestock rearing; the Bushmen, says the government, were bad for the park's wildlife conservation. So it decided to encourage relocation: a few years ago it stopped transporting children to school, delivering water and sending a mobile clinic into the reserve. All public services were to be provided in the resettlement villages of Kaudwane and New Xade, just outside the reserve.

Mathambo Ngakaeaja, who represents the Working Group for Indigenous Minorities in Southern Africa (WIMSA) in Botswana, says the government treats the Bushmen as primitive, second-class citizens who must be “civilised”. Questions to the government from a UN special rapporteur on the rights of indigenous people have so far gone unanswered.

Since 1997, over 2,000 people—Bushmen and others—have moved out of the reserve and, in return, been given livestock, a small plot of land and some money. Some try to grow food while struggling to keep their cattle and goats away from lions and other predators that venture out of the unfenced game reserve. But jobs are scarce in Kaudwane, so most people depend on government handouts; many turn for solace to alcohol. Today, fewer than 20 people officially live in the CKGR, though more have probably sneaked back in after pocketing their compensation or shuttle between park and resettlement villages.

A young man, who is unsure of his age but thinks he is about 30, does not miss his former life. “It is not that life is good here,” he says, “but it's better than in the CKGR.” Letshwao Nagayame,

probably 60 or so, disagrees. The goats he received when he moved are gone and the government's monthly food ration isn't enough to feed his family of nine. He shows scars on his legs, saying he was severely beaten and hung upside down by park officials, who accused him of poaching.

Reports of such brutality are rife. Yet Jeff Ramsay, the government's spokesman, says that investigations have not stood up any of the accusations. In 2002, some of the CKGR's former dwellers took the government to court, arguing that their relocation was illegal. They are demanding the right to return and for government services in the park to resume. The case is pending; proceedings restarted last week.

Alice Mogwe, who heads Ditshwanelo, a local human-rights group, says the solution will be found not in court but by negotiation. She says that the confrontational campaign by Survival and others, which have accused the government of ethnic cleansing and have called for a tourism boycott, has been counter-productive and hindered the resumption of talks between government and Bushmen. Some local Bushmen organisations agree, but others say that international pressure is the only way to make the government listen.

Ms Mogwe says the Bushmen suffer more from poverty (lack of education, poor health, scant opportunities) and from the failure of a paternalistic government to consult them properly than from their removal. Some 100,000 Bushmen live in southern Africa, perhaps half of them in Bostwana; numbers are hard to confirm, since ethnic lines are blurred by intermarriage. Their communities are fragmented, poor and marginalised. WIMSA, with its headquarters in Namibia, says that half of Bushmen fail to study beyond primary school. Botswana's Bushmen may on average be better off in terms of education, health and living standards than those of Angola, Namibia or even South Africa. But WIMSA says Botswana is worse than some of its neighbours at recognising and preserving their cultural identity.

The government's Mr Ramsay says foreigners are stirring up ethnic strife in a country that, unlike others on the continent, has avoided tribalism. A small, peaceful country of only 1.8m people, Botswana has been praised for using its vast diamond wealth wisely and for fostering tourism well. Its education system is one of Africa's best. While its rate of AIDS may be the highest, about half of those afflicted get free drugs. It is among Africa's least corrupt countries, its business environment among the friendliest. More's the pity that its sparkling image is at risk because of the way it is said to treat one of the continent's most vulnerable ethnic groups.

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Uganda

Who's for president?

Feb 16th 2006 | KAMPALA
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Yoweri Museveni, though losing popularity, looks set to stay in power

AP

A president who says he's indispensable

PRESIDENTIAL and parliamentary elections due on February 23rd offer Ugandans their best chance for peaceful change since independence in 1962. But that isn't saying much. Yoweri Museveni and his National Resistance Movement have been in power for 20 years—and have little intention of stepping down.

Most of those who think Mr Museveni has been around too long are again pinning their hopes on Kizza Besigye, a former colonel who was once a minister in Mr Museveni's government and now heads the Forum for Democratic Change. He ran in vain for president last time round, in 2001, when Uganda still eschewed a multi-party system. Uganda's Supreme Court said that the polls had been rigged but not badly enough to overturn the result. Will Mr Besigye be given a fairer chance this time? And if so, might he win?

On both counts, it is hard to say. Since he returned from exile in October, he has drawn huge crowds wherever he has held rallies. His stock rose higher still in November, when he was charged with rape and treason, and was locked up for six weeks. The rape case seems to be fizzling out in court. Mr Museveni's own credentials as a reformer had already been undermined when, last year, he got his largely rubber-stamp parliament to change Uganda's constitution to lift term limits so he could run again. But now, for the first time since 1980, it will be a multi-party contest.

However tarnished his credentials as a democrat, Mr Museveni has achieved quite a lot. Most notably, after two post-independence decades of mayhem and bloodshed mostly under Milton Obote and Idi Amin, he has brought back peace and stability to most of the country, though he has yet to succeed in squashing the fanatical rebels of the Lord's Resistance Army in the north.

On the economic front, he has made strides. Uganda is again growing steadily, albeit with massive infusions of aid from abroad. But there is a long way to go. The 8% of Ugandans who have electricity often blame the government for power cuts that sometimes last 12 hours or more, though a drought that has been emptying Uganda's hydroelectric dams is largely responsible. Enough Ugandans seem to like Mr Museveni's plans to revamp the economy while seeking to bolster farmers, two-thirds of whom still barely subsist. Mr Museveni's government has done better than most others in Africa at tackling HIV/AIDS.

The president has also struggled, with varying success, to exploit the bloody wars that have lapped around his country's fringes—in Sudan to the north and Congo and Rwanda to the west and

south. Rwanda's army, competing for influence in eastern Congo, generally got the better of Uganda's, while the International Court of Justice at The Hague ruled last year that Ugandan troops had plundered natural resources in Congo and had committed human-rights abuses there. Mr Museveni has kept on friendly terms with the former rebels in southern Sudan, who have helped him in his war against the Lord's Resistance Army, which the Sudanese government in Khartoum may still be quietly backing. More recently, the governments in Kenya and Tanzania, hitherto Mr Museveni's most vital allies, may be tiring of his increasingly autocratic ways—and of his apparent ambition to become president of a resuscitated East African federation.

A recent opinion poll suggests that Mr Museveni is in the lead but might not win the half of the votes needed to avoid a run-off. Opposition parties are already crying foul. Human Rights Watch, a New York-based lobby, says that members of the ruling party and the army have beaten and threatened opposition people in western and eastern Uganda. The opposition says the electoral commission is biased, since Mr Museveni appointed its members. Though a soldier shot three people dead this week at a pro-Besigye rally, campaigning has been a lot more peaceful than it was last time, in 2001. So far.

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Swaziland

It's still fun to be king

Feb 16th 2006 | JOHANNESBURG
From The Economist print edition

Africa's constitutional yet still absolute monarchy

AFTER a decade on the drawing board, Swaziland at last has a new constitution. The small feudal kingdom of 1.1m people, sandwiched between South Africa and Mozambique, has not had one since 1973, when political parties were banned and a state of emergency declared. King Mswati III has been increasingly urged to be more democratic. But the new constitution is unlikely to breathe much fresh air into the stifled politics of one of the world's last absolute monarchies.

For more than 30 years, Swazi monarchs have ruled much as they pleased. The country's authorities argue that the traditional, mainly rural, society can cope only with slow change and that Swazis are uninterested in political parties. King Mswati, supposed to embody traditional values and continuity, is famous for his flamboyance, from his taste in flashy cars to ever-younger wives: in 2002, a schoolgirl was abducted to become his tenth. Her mother went to court, but the royal house said it was in line with traditional law.

The new constitution does, however, talk about the right of assembly and expression, while Swazi women—previously considered minors and not allowed to own property or take out bank loans—should be better off. But this may not bring rapid social change.

Much uncertainty floats over political parties and whether they are still banned. The king retains his power over the government, parliament and judges, and can abrogate any constitutional right. According to the International Crisis Group, an international think-tank, the new constitution actually entrenches the monarch's power.

Over the past few years, church groups, trade unions and students have demonstrated for more democracy. In the past six months, a wave of petrol bombs has targeted government buildings and officials' houses. Some 16 activists have been arrested; more have fled the country.

Most Swazis are struggling to get along. Two-thirds of them are deemed poor, 40% or so are unemployed, and the same proportion of adults has HIV/AIDS. Food is often scarce; the UN reckons that a fifth of Swazis will again need handouts this year. Above all, corruption—and the king's extravagant spending—continue unabated.

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Italy's elections

A “martyr” with some method in his madness

Feb 16th 2006 | ROME
From The Economist print edition

AP

While Silvio Berlusconi uses old tricks to steal the political show, his opponents are divided and disappointing

Get article background

MUSLIMS who were outraged by cartoons of their Prophet must have been baffled to hear that Italy's prime minister, Silvio Berlusconi, had likened himself to Jesus. Proof that the West is incorrigibly impious? Or new evidence that Mr Berlusconi, who boasted of the West's cultural superiority after September 11th, is a “crusader”?

Neither really. Although—or perhaps, because—Christianity has been so central to south European society, Latins often exhibit a careless familiarity with its terminology and symbols that can surprise people from farther north. In French or Spanish, a trial or torment is called a “Calvary” after the place Jesus was crucified. And Italians call a hapless wretch a “poor Christ”. That helps explain Mr Berlusconi's claim: “I am the Jesus Christ of politics. I'm a patient victim. I endure everything. I sacrifice myself for everyone.”

Opponents, however, call Mr Berlusconi the most self-serving prime minister in Italian history—a man whose government has repeatedly passed legislation that favoured his business interests, and altered the law to ensure he would not be convicted of any of the many alleged offences for which he has been tried. Yet Mr Berlusconi frequently depicts himself as a martyr—a man who, were he not slaving day and night for the good of his fellow-Italians, could be relaxing and enjoying his immense personal fortune.

This time, though, he was doing more than simply bemoaning his fate. The madly outrageous comments for which the prime minister is famous serve a purpose that is usually unremarked: they focus attention on him, to the exclusion of his political rivals. Mr Berlusconi had used the technique to good effect before parliament was dissolved on February 11th, clearing the way for a general election on April 9th and 10th. Having failed to scrap the rules that mandate equal air time for all political parties during the campaign, Mr Berlusconi set about capitalising on his unrivalled access to the media before the election was formally called. He owns a controlling stake in Italy's three biggest private television channels and, as prime minister, he can decide the fate of the three which are run by the state.

For more than three weeks, Italian viewers saw Mr Berlusconi talking up the record of his government, sometimes for hours on end. At one point, Romano Prodi, the former president of the European Union's commission, who aims to oust Mr Berlusconi, complained that, in the previous fortnight, the prime minister had had 24 times as much television exposure as he had. The prime minister's shock tactics included comparing his achievements in office with those of Napoleon, and promising that he would abstain from sex till polling day.

Crude attention-seeking, maybe. But it worked. Before Mr Berlusconi embarked on his media blitz, his coalition was trailing the opposition by six percentage points. A poll published by the daily *Corriere della Sera* indicated that, when it was over, the gap had shrunk to about four.

At last, on February 11th, his opponents were entitled to think they might get a fair crack of the whip and, indeed, they chose that day to launch their programme. Mr Berlusconi made his “Jesus Christ” quip and their 379 pages of good intentions were swamped by controversy over the prime minister's audacity.

Whether he needed to bother is another question: the opposition's programme soon became an embarrassment. Its length attests to Mr Prodi's problems in preserving the Union, the hideously awkward group that he leads. At one end it includes a Trotskyist who has defended the right of insurgents to attack Italian soldiers in Iraq. At the other, it takes in former Christian Democrats who would be seen as right of centre in many places.

The fudge-filled programme includes the pet projects of all the seven parties that signed up to it. It vows that Italian troops will be withdrawn from Iraq, but in accordance with a “technically necessary” timetable that guarantees “conditions of security”—a position little different from the government's. It dodges the issue of whether to continue work on a rail tunnel through the Alps north of Turin, near the site of the winter Olympics. That did not escape the notice of the press and, to protests from Italy's Greens, who also belong to the Union, Mr Prodi said it would go ahead at all costs.

The episode left a worrying impression of disunity, and distracted attention from the nub of the programme—a thoughtful analysis of Italy's economic decline and a programme for reversing it. Mr Prodi had earlier pledged to cut unit labour costs by five percentage points. The programme added a fiscal-reform plan to lower employers' welfare contributions while raising take-home pay. This is vigorous, ambitious stuff. But a shake-up of the ailing economy also requires an attack on vested interests in the professions, the unions and the public sector which the left would find difficult to mount. Its main employment pledge is to reduce the number of non-permanent jobs.

A more obvious question is how many voters will take the trouble to read a programme as long as a novel. Mr Berlusconi has taken a more direct approach. Instead of wrangling with his allies, he simply unveiled his programme before consulting them. Ignoring rumbles of dissent, he vowed to seek their backing for an eight-point plan led by tax cuts. It also promises 1.5m new jobs, higher pensions, more community policing, free school books, an end to hospital waiting lists and a plan for the sale of state-owned housing to tenants. Faced with this fait accompli, his political allies

caved in. The apparent contrast between the unity of the right and the disarray of the left was painful to see. With its lead slipping, the left cannot afford to be wrong-footed again.

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Kosovo's future

When hard truths shock

Feb 16th 2006 | GRACANICA, KOSOVO
From The Economist print edition

Kosovo Serbs hardly believe their fate

EVER since last autumn, the outside world has been sending two separate messages about the negotiations on the future of Kosovo which are due to start on February 20th. One is that, formally, the talks are taking place without prejudice; the other message, delivered more privately but with growing firmness, is that Kosovo will become independent; so Serbia must help the province's 100,000-plus ethnic Serbs to cut the sweetest deal they can if they want to stay there.

AP

An enclave of fear in Gracanica

This month, the message has been delivered in a more open way, and Serbs are in deep shock. The mood in Gracanica, a Serb enclave in Kosovo built around one of the Balkans' finest medieval churches, is "fatally depressed", according to Zivojin Rakocevic, head of the local radio station. Rada Trajkovic, a Kosovo Serb leader, spoke for many when she said: "I cannot admit to myself that it's reality." She sees a "catastrophe" in prospect. Ms Trajkovic insists that Albanians hate Serbs so much that all her people, except the old and poor, will flee. So far, people are watching sullenly, to see if they are now doomed to be the Balkans' latest wave of refugees.

Whence the sudden shock over a piece of news that many view as an open secret? John Sawers, the political director of the British Foreign Office, caused big ructions on February 6th when he told a group of Kosovo Serbs, including Mrs Trajkovic, of the latest thinking from the contact group, a group of five western countries, plus Russia, which has been deliberating Kosovo's fate. He said the group had decided firmly that Kosovo should have independence, and Serbs must make the best of it.

Ms Trajkovic admits that Mr Sawers was not the first bigwig to say such a thing; but his bluntness caused a jolt. Meanwhile, at the office in Vienna where Martti Ahtisaari, a former Finnish president, is preparing to host the talks on Kosovo's status, there was quiet satisfaction over the diplomat's clear message: he was telling a hard truth that needed telling.

Among Kosovo's Albanian majority, making up over 90% of the province's 2m people, there was rejoicing over the diplomat's frankness, and a generally upbeat mood. Quicker than expected, Kosovo's parliament has chosen a president—Fatmir Sejdiu, a lawyer—to succeed the late Ibrahim Rugova. Veton Surroi, an opposition leader, says the change of guard gives a chance to ease out corrupt old-timers and promote people who know economics.

In Belgrade, reaction to Mr Sawers's words verged on hysteria. Tomislav Nikolic, head of the ultra-nationalist Radical Party, claimed that he and Vojislav Kostunica, the Serbian prime minister, had agreed to declare Kosovo “occupied territory” if it secedes. Serbia's moderate president, Boris Tadic, rather quixotically suggested that Kosovo's status be deferred for 20 years. But in Vienna, diplomats gave warning that the Serbs would—not for the first time—be doing themselves a grave disservice if they were now to fall in behind hotheads such as Mr Nikolic.

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Denmark's cartoons

Reaping the whirlwind

Feb 16th 2006
From The Economist print edition

Denmark's cartoon crisis has one clear beneficiary—the far right

AS DENMARK reels from boycotts and global protests over its irreverent cartoons, it is hard to believe there is any Dane who takes any satisfaction from the affair. But there have been political winners—the Danish People's Party, an anti-immigration movement, and its leader, Pia Kjaersgaard, the doyenne of Danish nationalism.

The sound of civilisations clashing has given a boost to this xenophobic movement. Last week, a survey published by PLS Ramboll, a pollster, gave the DPP 17.8% of the vote, up from 13.3% in last year's general election. While denying any intention to exploit the crisis, the party reports a surge in membership applications.

If sustained, the DPP's new popularity could give the party a leg up into power. It is not a formal member of Anders Fogh Rasmussen's centre-right administration, but it has backed the government since 2001. After the next election, it may be hard to keep the party out of government.

Mr Fogh Rasmussen himself is riding high at home, even as his effigy is burned in Muslim states. His Liberal Party is steady in the polls and support for the informal government-DPP link has increased to 55.5% from 52.6%. Several moves to blame Mr Fogh Rasmussen for the crisis have failed. He has been criticised for refusing to meet a group of 11 Muslim ambassadors in October; and leftist politicians rebuked him this week for claiming that the group got an audience with the foreign minister instead. In fact, eight of the ambassadors did talk to the foreign minister in November, but not about the cartoons. Critics said the prime minister had misled the world, but Mr Fogh Rasmussen fended them off. Per Stig Moller, the foreign minister, took the rap, saying he “slipped up” by misinforming the prime minister's office.

Mr Fogh Rasmussen also parried attempts to link the crisis to his tight immigration policy. “Immigration policy is not behind this, we treat foreigners properly. This is a very open, very tolerant society,” he insists. To drive home the point, he held a meeting this week with the Democratic Muslims, a new, moderate group. But his tactics may yet backfire. Naser Khader, the Democratic Muslims' founder, is also a leader of the opposition Social Liberals. Mr Khader is widely admired these days as a constructive player in inter-religious relations. If that admiration filters down to the Social Liberals, Mr Fogh Rasmussen will no longer look so untouchable.

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German trade unions

There's life in the old dinosaurs yet

Feb 16th 2006 | BERLIN
From The Economist print edition

The lumbering giants of German labour are a bit lighter on their feet

REVOLUTIONS can't happen in Germany, Stalin said, because you would have to step on the lawn. True to the country's character, the strikes that spread across most of Germany this week were a civilised affair. Verdi, the services trade union, told parents to make alternative child-care arrangements. Local authorities gave out bags to help people stash their trash on balconies or in garages. And theatres put on plays that needed no backstage work.

While the largest public-sector strike in 14 years is unlikely to lead to chaos *à la française*, it is not the only sign that Germany's trade unions are staging a comeback. Industrial action in Nuremberg—after a decision by Electrolux, a Swedish home-appliances maker, to close a factory—has become a symbol of the battle to stop the flight of jobs. It has also boosted the standing of IG Metall, the metal workers' union, which may soon call another nationwide strike over wages. So could it be turnaround time for Germany's trade unions after many years of decline?

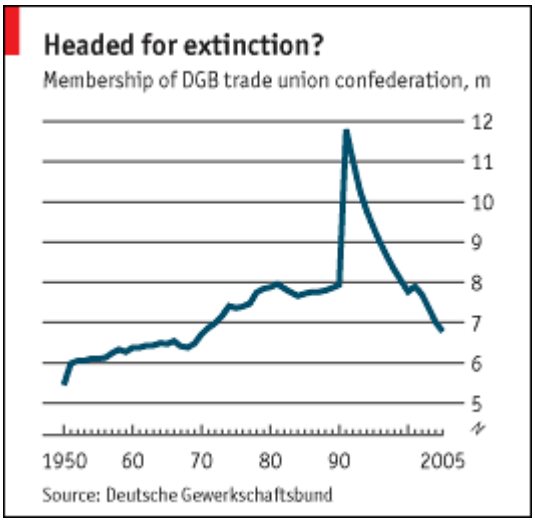
Conditions are certainly more favourable than they have been for a long time. Most economists expect growth to pick up this year: some put it as high as 2%. Many large firms are expected to show good profits, leaving room for more generous salary increases than in recent years, during which real wages have slipped and unions have given much ground.

Perhaps paradoxically, Germany's new political firmament also makes life easier for the country's unions. Before last year's elections, the Social Democrats (SPD) were the unions' only credible partner, so the previous chancellor, Gerhard Schröder, could afford to ignore union leaders when they opposed his “Agenda 2010” reforms. Now, with the Left Party in parliament, the SPD has lost this monopoly; it is thus unlikely to let the grand coalition government plough on with labour-market reform. Meanwhile, Michael Glos, the new economics minister, has called for wage increases—in tune with many Germans, who are beginning to think the time of belt-tightening is over.

IG Metall, in particular, seems headed for a partial victory. Demanding a 5% hike, it may get around 3%. And even though public-sector strikes tend to be unpopular, Verdi could get some of what it wants too. It is fighting efforts by some public-sector employers to extend the working week without extra pay to 40 hours or more from around 38.5 hours, as well as plans to trim holiday and Christmas bonuses.

Both unions badly need a success—not least to win time to solve their structural problems. At their core, says Anke Hassel, a professor at the Berlin-based Hertie School of Governance, Germany's unions are still monopolistic organisations geared to defending male bread winners, from skilled metalworkers to garbage men. This is at odds with most economic trends, such as the growth of the service sector as well as female and part-time employment.

Because they do not feel represented by traditional unions, new kinds of workers have never joined them, while others have left in droves. The Deutsche Gewerkschaftsbund, the unions' umbrella body, has seen membership fall to the levels of the early 1970s (see chart): of the 6.8m current members, nearly one-third are retired or jobless. If this trend continues, the last unionist will hand in his card by 2020. In contrast, specialised professional organisations such as Cockpit (pilots) and Marburger Bund (doctors) are growing.



German unions have tried to turn the tide. Some have merged: hence the landscape's domination by a duopoly of IG Metall and Verdi. This development has union-watchers—like Horst-Udo Niedenhoff of the Institut der deutschen Wirtschaft, a think-tank—worried that the two behemoths will compete as leaders of industrial action. Because of this rivalry, he says, the current negotiations may drag on.

But in other ways, the giants are competing to be flexible, not just militant. IG Metall has agreed to company-level exceptions from industry-wide wage deals, and Verdi has accepted pay for performance for civil servants. Both big unions now stress non-monetary demands, like training.

As a result, the haemorrhage of members has slowed and young people are joining again. And the current round of strikes could reinforce these trends. But overall, unions have yet to adapt to an increasingly diverse workforce. If they fail to attract all kinds of employees, they could face the dilemma of many big industrial conglomerates: break up or die.

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Bird flu

Sinister droppings

Feb 16th 2006 | ROME
From The Economist print edition

As Europe frets over flu, other places should be worrying more

FIRST, Italy. Then Greece, Austria and Germany. One by one, several European countries confirmed this week they had detected the H5N1 strain of bird flu, which can be lethal to humans. It was also suspected in Slovenia. As the virus spread, so did the panic. Helplines in Italy got calls from pet owners asking if they should kill their canaries. Despite official assurances that it was safe to eat chicken, poultry sales plunged 70%. Fortunately, the virus must still make several leaps in Europe before it presents a serious risk to humans—and, even then, it will not be dangerous to eat properly cooked poultry unless the disease changes radically.

So far, the virus has been found only in wild birds. Nothing suggests it has passed to domestic poultry. To catch the disease from a chicken or duck, moreover, a human being must come into contact with the excretions or secretions of an infected bird. In Europe fewer people live with poultry than in Asia, where H5N1 has claimed at least 91 lives.

The bird flu that reached western Europe this week seems to have been carried by swans fleeing a Balkan cold snap. But the United Nations' Food and Agriculture Organisation (FAO) in Rome spoke this week of a new peril: migrating birds could bring the disease back after wintering in Nigeria, where an outbreak was confirmed last week at a farm near Kaduna. One official saw a “real risk” looming in spring.

Again so far, nothing suggests that humans have been infected in Africa. But Nigeria is one of three new “hot spots” that worry the FAO's experts far more than anywhere in Europe. Like other countries in Africa, it has only rudimentary veterinary and medical facilities. However, Africa does not have the same density of either humans or poultry that is found in Asia, and Nigeria—uniquely in Africa—has a developed poultry-rearing industry with big farms on which it is much easier to detect and control outbreaks of avian flu.

Another area of concern is Azerbaijan, where the authorities are said to have been slow to take precautionary measures. Yet another is Iraq, where five northern districts have been infected—and where a major outbreak would be extremely difficult to control. The big risk everywhere is that a strain of the virus will transmute into a version that can be passed from person to person. That has not happened so far and, with luck, may never.

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Charlemagne

Not yet free to serve

Feb 16th 2006
From The Economist print edition

Europeans, as George Bush might say, misunderestimate services

THIS week is likely to be remembered in Brussels as one in which the European Parliament celebrated the 20th anniversary of the single market by preventing its expansion into the largest segment of Europe's economies. The Single European Act, signed into law on February 17th 1986, paved the way for a common market in goods; it made companies more efficient through increased competition and economies of scale and benefited consumers by putting downward pressure on prices. In its original form, the so-called “Bolkestein directive” was supposed to do the same for services, that is, for economic activities you cannot put on a train (like finance, hairdressing, or retailing). The European Commission estimated that the original plan would have boosted income by 1.8% and created 2.5m extra jobs (other estimates put the welfare and employment gains lower).

In many ways, however, the directive (which the European Parliament was due to vote on as *The Economist* went to press) is a debilitated creature. It does not apply to banking, telecommunications, transport or health, and its scope may be restricted further. As things are, its merits and drawbacks are balanced.

On one hand, it does ease some of the burden of pointless red tape (Spain has 700 laws governing restaurants; Paris has 12 just for taxis) by making it easier for people wanting to offer services in other countries to know what to expect. The plan might also draw away from the debate on services some of the poisonous anti-globalisation rancour that affected, for example, the French constitutional referendum. And it could begin a gradual process of racheting up liberalisation, which is what happened in goods markets after the passage of the Single European Act.

On the other hand, in its current form, the plan would remove the core of the original proposal, which would have subjected service providers only to the laws and rules of their own country (the so-called “country of origin principle”). And the new plan, assuming it passes, could add to the burden of legislation in the name of “harmonisation”—by increasing red tape in lightly regulated countries such as Britain and the Netherlands.

The arguments will rumble on until the European Commission, parliament and national governments have all had their say. Whatever happens this week will affect only the broad shape of any final deal, rather than the details. But it is not the details that really matter. It is the subject of the dispute, the services economy itself, that merits attention.

“Europeans do not really take services seriously,” claims Paul Hofheinz of the Lisbon Council, a reformist think-tank in Brussels. “We tend to think of the economy as manufacturing, and of jobs in terms of industrial jobs, with a big salary, lots of benefits, and security.” That view might sound odd. After all, some of the most successful service providers in the world are European—banks in Britain, mobile telephony in Finland, “big-box” retailers in Sweden. Yet these are not typical. In America, Britain and Australia, services account for three-quarters of income and four-fifths of jobs. In France, Germany and Italy, services account for six to ten percentage points less in terms of income and jobs. European service providers are less efficient and less dynamic. Since 1995, productivity growth in services has on average been less than 0.5 % per year in the euro zone, 3% in America and 2% in Britain. Cross-border trade in services is puny, despite Europe's claim to be a common market. In sum, the service sector is stunted in much of continental Europe.

There are all sorts of reasons for this. Perhaps it is partly cultural. Napoleon called the English “a nation of shopkeepers”, implying this was about as low as you could get. His admirer and biographer, Dominique de Villepin, who is also prime minister of France, has a similar antipathy for Anglo-Saxon mercantilism: he grumbles that attempts to liberalise services “call into question our labour laws and public services”.

Europeans tend to think of services as providing low-tech things like plumbing, even though big retailers are some of the world's most high-tech-intensive companies. But Europe's retail champions have trouble spreading their wings. To protect their charming boutiques, France and Denmark have made it all but impossible to build new shopping malls. Also, European liking for state provision of services—for example in health—limits competition and innovation in those areas.

How Europe hobbles itself

But whatever the reason, the consequence is not just damaging in itself. It also explains some of Europe's wider problems. The EU has 19m unemployed. For the past decade, seven out of ten new jobs in the world's rich countries have been created in services. Europe has trouble integrating minorities—as last year's French riots showed. Services are one of the main providers of first jobs to immigrants. To encourage sexual equality and deal with ageing populations, European countries want to encourage more women and older folk to have jobs. For what it's worth, countries with the highest share of services also have the highest labour-participation rates for women and people over 55.

Europe's poorish record in services is closely connected with its failure to keep pace with America in terms of productivity growth and innovation. A report by the Institute of Advanced Studies in Vienna argues that almost all the difference between American and European productivity since 1995 can be accounted for by services, especially the bits that use a lot of information and communications technologies, which, the institute says, grew twice as fast in America as in Europe.

But encouraging services isn't rocket science. The key to improving living standards is to allow jobs and capital to flow from declining to expanding industries. Services are expanding. Manufacturing has been declining for 30 years. The vote in parliament this week will do nothing to help the flow from one to the other, and may even impede it.

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Politics

Out-toughing the Tories

Feb 16th 2006
From The Economist print edition

Labour and the Conservatives accuse each other of playing politics with national security. How shocking

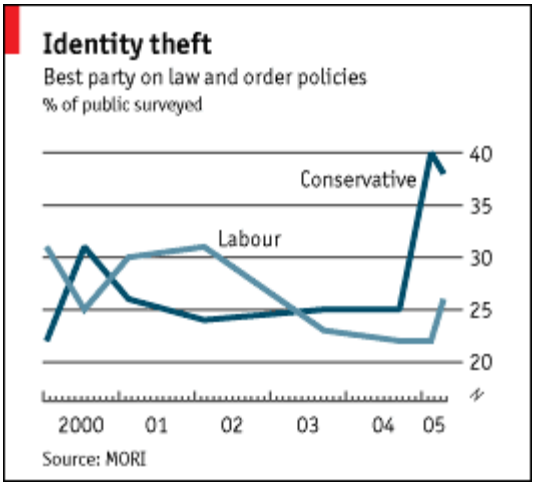
TONY BLAIR has had a good week, cheating death in the skies and on the floor of the House of Commons. On Sunday an engine failed just before take-off on a plane that was meant to be flying the prime minister home from South Africa for some key votes the next day. Even without him, the government rammed through a controversial bill to impose national identity cards. On Tuesday it banned smoking in even more public places than it originally intended. And then on Wednesday Mr Blair persuaded the House of Commons, with a comfortable majority, to pass a bill to make glorifying terrorism illegal.

Is it a good law? Probably not, but it sent a strong message. Both Labour and Conservative politicians, of course, know the power of symbolic laws to send signals about what their parties stand for. When the Tories were in power, they passed a law banning the promotion of homosexuality in schools. No prosecutions were ever brought, but the measure reassured socially-conservative voters. Labour has also mastered the trick, with a law last month against inciting religious hatred and now the new one against glorifying terrorism. In doing so, it has snatched valuable ground from its rivals.

Matching or exceeding Conservative rhetoric on crime and national security has been one of New Labour's aims since its inception. The electorate, so the thinking goes, will allow Labour to increase state spending and redistribute more money to poor people only if the government doesn't come over as a soft touch. Though a small part of the party worries about trampling on civil liberties, Labour MPs tend to put the interests of the community first—as demonstrated by the overwhelming vote in favour of the smoking ban (see article). Labour's lead on law and order in opinion polls has slipped in the past couple of years (see chart), giving the government every incentive to paint the Tories as woolly liberals, or opportunistic and out of touch.

Tony Blair argues that a new law is needed to catch people who put videos of terrorist acts on websites and generally celebrate terrorism in ways that other laws (against inciting murder, or racial or religious hatred, for example) might not catch. He scarcely needed to make the case. People are angry about the placards that the police allowed demonstrators to wave outside the Danish embassy earlier this month. The belated conviction of Abu Hamza, a rabble-rousing former imam of a mosque in Finsbury Park in north London, has fanned unease. So has a warning from Lord Carlile, an independent reviewer of anti-terror legislation, that there are about 20 other imams in British mosques who go misty-eyed when they talk about the attack on New York's Twin Towers. They all

made Mr Blair's case for him.



Charles Clarke, the home secretary, accused the Conservatives of flip-flopping over identity cards—touted these days as a way to crack down on terrorists, among others—and seeking to water down laws that would enhance national security. Dominic Grieve, the shadow attorney-general, in turn accused the government of fomenting conflict with the opposition in order to sound tough. The Tories charge the government with operational incompetence: why was Abu Hamza not prosecuted for ten years, when six of the 11 counts he was convicted of fell under a law from 1861 against soliciting to murder? This is all a long way from the bipartisan noises both parties were making after the bombings in London last July.

Patrick Mercer, who speaks for the Tories on homeland security matters, argues that Labour prefers writing new laws to enforcing existing ones, and has done little to prepare for further terrorist attacks. David Cameron, the Conservative leader, has taken to describing the Labour Party as “ineffective authoritarians”. The Conservative spokesmen have some credibility: Mr Mercer went on 11 tours of duty in Northern Ireland and Mr Cameron likes to remind people that one of his first political jobs was to write a speech for Ian Gow, an MP who was killed by the Provisional IRA.

The tearing-up-the-card party

If the Tories should be able to fend off accusations that they are soft on terror, the position they have taken on ID cards is riskier. The public is solidly in favour of the cards (though support slips when people are told they will have to pay extra for them), and many Labour MPs are gleeful at having forced their opponents on to what they are sure is the wrong side of the argument. Now anyone renewing or applying for a new-style biometric passport from 2008 will get an identity card in the bargain. Since Britain issues around 6m passports a year (more than any country apart from America, thanks to the national pastime of taking cheap international flights), a lot of people will soon have them.

The comfortable wins in the Commons also send a message from the government to the troublesome Lords—who had amended both the ID-card and the terrorism bills—not to meddle further when they consider the legislation again. After a couple of weeks in which the government's authority in the lower house was looking shaky, self-discipline has returned to the Labour benches. For now at least.

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Army abuses

Video nasty

Feb 16th 2006
From The Economist print edition

British soldiers are shown beating up Iraqis. Is the army going to the dogs?

IT IS a lamentable fact that even the best men do ugly things in war. But only recently could their misdeeds be graphically recorded. This change may largely explain the recent scandals over uncouth American and British troops in Iraq and elsewhere. But it also makes their behaviour more damaging. This week a video was broadcast showing British soldiers kicking hell out of four unarmed Iraqi teenagers while the cameraman laughed and jeered. In response, the government of Basra, a province of southern Iraq, claimed to have severed relations with British forces there. Angry Basrans chanted anti-British slogans and burned the Union Jack flag.

By recent standards, the beatings were a fairly mild abuse. They were nothing to the obscenities committed by American troops in Abu Ghraib prison—fresh photographic evidence of which surfaced in Australia this week. Nor did they look as awful as photos circulated in 2003 showing British soldiers beating and trussing Iraqi prisoners, dangling one from a fork-lift truck. They seem to have occurred, moreover, in early 2004, on the fringes of a riot in the rebellious town of al-Amara. Under fire from small-arms and grenades, the soldiers of the Light Infantry regiment otherwise showed great restraint. But, as this did not feature on the video, it matters little. As a mark of its concern, the army arrested the alleged cameraman, a corporal, on the day the video was first broadcast, and three more soldiers two days later.

The incident is worrying for two reasons. First—as Basra's provincial government clearly appreciated—because in Iraq, and the wider war on Islamic militancy, propaganda is key. Abuses by British and American troops in Iraq are the stuff of dreams to insurgent and terrorist recruiters, including those in Britain. They also further erode support for the war among the wider British public, a majority of whom oppose it.

Another concern is what it may reveal about the army, which prides itself on its discipline and sensitivity. These are the qualities that underlie its fine reputation for counter-insurgency and peacekeeping. Senior officers therefore discuss the abuses in the gravest terms. One notes anxiously that the video shows several soldiers walking casually by without intervening, and that, for two years, some soldiers must have known of it, but kept quiet. Are standards sinking?

Probably not—or, at least, the video should not suggest so. British troops, in Kenya, Malaya, Aden and Northern Ireland, have committed worse abuses. Indeed, given a greatly increased likelihood of abuses being detected, on videos or mobile-phone cameras, it might be thought remarkable that only a handful of misdeeds have come to light.

Yet rancour over the war could have contributed to them. The British army, with its local and regional regiments, and its allegiance to the queen as a symbol of national interest above party politics, reflects British society. It cares acutely what its public thinks of it—previous abusers have complained that they felt bitter at having risked their lives in a cause to which many Britons were

hostile. Their bad behaviour will only make Britons feel worse still about the war.

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Smoking

Thou shalt not inhale

Feb 16th 2006
From The Economist print edition

Smoking in pubs and restaurants is to be illegal. Will it make much difference?

JAMES I, England's first Stuart king, would be pleased with Tony Blair. “Is it not both great vanity and uncleanness that at the table...men should not be ashamed to sit...puffing of the smoke of tobacco one to another making the filthy smoke and stink thereof to exhale athwart the dishes...when very often men that abhor it are at their repast,” he wrote four centuries ago. He tried—and failed—to tax smoking out of existence.

Today's government may prove more successful. Worried about public health and the effects of passive smoking, ministers proposed a limited ban on smoking in restaurants and pubs serving food. But MPs had no patience for such nuances: in a free vote on February 14th, they outlawed smoking from the summer of 2007 in all restaurants, pubs and clubs in England. Similar bans will take effect elsewhere in Britain before then.

The measure will protect the innocent from passive smoking. But will it encourage the 26% of men and 23% of women who smoke to cut down? Will it reduce the awful prevalence of smoking among teenage girls? Millions of office workers enjoy a furtive fag out-of-doors now that many offices are smoke-free. Pub-goers may simply follow suit.

Substitute smokeless goods are another option. Take snuff, a vice of the lace-jaboted set in the 18th century and later of the working man, especially miners who could not light up down the pit for fear of blowing themselves to bits. Snuff-taking has waned further since Margaret Thatcher closed the mines.

But Jeremy Cole, manager of G Smith & Sons, Britain's biggest retail snuff-seller, says their sales of the stuff are in fact rising, by about 5% a year. And younger customers are emerging. The ban on smoking in pubs, he reckons, “could be snuff's Second Coming”.

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Economic outlook

Boringly benign

Feb 16th 2006
From The Economist print edition

But there are risks to the Bank's main forecasts

MERVYN KING, the governor of the Bank of England, has long desired to take the drama out of monetary policy. Judging by the Bank's latest *Inflation Report,* he is close to fulfilling his ambition. The only sensation in the quarterly outlook was how stunningly stable the economy will be as it picks up speed over the next couple of years.

According to the Bank, last year's slowdown, when GDP grew by only 1.8%, will soon seem a distant memory. By the end of the year, GDP is forecast to be rising by an above-trend 3% a year, a pace sustained through 2007. Yet the central projection for consumer-price inflation shows it glued to the government's target of 2% a year.

The Bank's projections are based on market expectations of interest rates, which are broadly flat over the next couple of years. The report thus implies that the base rate is, boringly, likely to remain at 4.5%, where it has been held since last August's evidently over-sensational quarter-point cut from 4.75%.

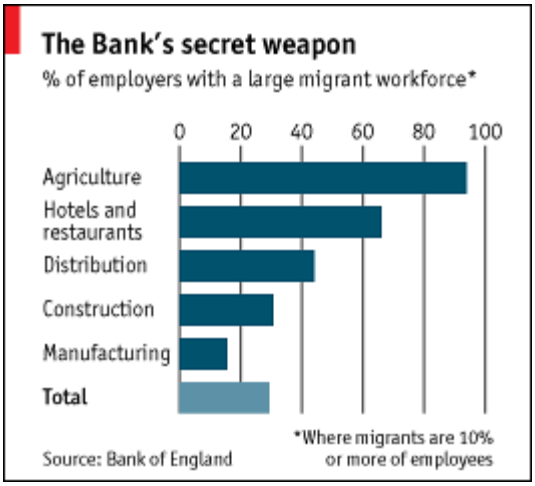
The outlook appears so tediously benign it verges upon the panglossian. No doubt that was why Mr King was keen to highlight the risks when presenting the report on February 15th. These are on the downside for growth, he said, but “evenly balanced” for inflation.

The central growth forecast certainly looks quite punchy, although the Bank has in fact lowered it a bit for 2007 since it last ventured a prediction in November. Much depends upon the consumer, whose reluctance to spend last year pulled GDP growth down. The Bank now expects household spending to grow by close to its long-term average over the next three years. This could prove too optimistic, now that the housing market has become much less frothy and people are being urged to save more for their retirement.

If growth is lower than expected—and the Bank concedes that consumer spending could turn out to be weaker than in its central projection—the effect will be to pull down inflation. But set against this are possible risks that could push inflation up, notably the longer-term impact of higher energy prices.

The evidence so far is encouraging. In marked contrast with previous oil-price shocks, the sharp jump in fuel bills has not fed through to big wage demands. Official figures released on February 15th showed that pay growth remains well under control. Average earnings, excluding bonuses, rose by 3.8% in the year to the final quarter of 2005.

One reason why pay pressures have been tame is the influx of new migrant workers from eastern Europe. Nearly 300,000 registered for work between May 2004 and September 2005. This has pushed the growth of the working-age population up to its highest rate in over 20 years. A survey by the Bank shows that overseas workers are particularly prominent in agriculture, and hotels and restaurants (see chart). In both sectors, this appears to have restrained pay.



Higher inflows of migrants may have eased capacity constraints, but it is uncertain whether the influx will continue, especially now that jobs are becoming scarcer. Furthermore, productivity growth has collapsed in the past year, arousing fears that the underlying growth in capacity may have slowed. The risks to the Bank's rosy forecasts may well lie as much with constraints on the supply side of the economy as with shocks to demand.

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Software investment

Now they see it

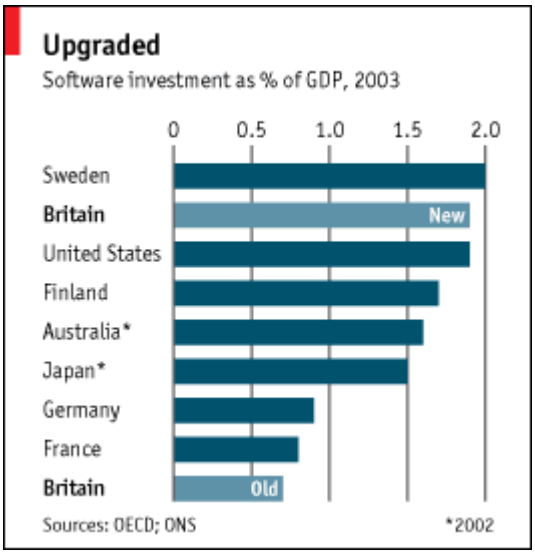
Feb 16th 2006
From The Economist print edition

Suddenly, there's a lot more technology about

HARRY POTTER could learn a thing or two from Britain's number-crunching wizards. With a stroke of a pen rather than a wave of a wand, they can make big figures levitate.

Until this week, the scale of Britain's software investment appeared especially puny (see chart). In 2003, the national accounts showed total investment of £8 billion ($13 billion), worth 0.7% of GDP—among the lowest in the OECD.

Now this dismal picture has been turned on its head. According to new and still experimental estimates released on February 13th, the true figure should be £21 billion, worth 1.9% of GDP— among the highest in the OECD.



The new numbers reflect a huge exercise to make sure software investment is counted correctly. The big change has been to “own-account” (developed and produced in-house) rather than purchased software. The revisions show own-account software of £13 billion in 2003, compared with the previous figure of £2.5 billion. Estimates had been failing in particular to capture in-house software in financial and business services.

Could Britain's new position near the head of the software-investment country rankings prove as illusory as its earlier position near the bottom? After all, it is not the only country where official statisticians are putting more effort into better figures. A big upward revision is likely in Japan, again because of new estimates for own-account software.

But, according to Nadim Ahmad of the OECD, “the scope for improvement for other countries is generally much less than for the UK”. That's a polite way of saying the British figures were particularly ropey. However, it also suggests that Britain will keep its higher place.

When the figures are incorporated, as expected, into the national accounts next year, they will raise the level of GDP by 1%. The GDP and labour-productivity growth record in the years 1992-2003 will also improve, though by no more than 0.1% a year, as figures for previous years are revised to include new estimates for software investment.

All very uplifting, but Britain's productivity performance, even when revised, will remain disappointing. Despite all that software investment, productivity growth has recently slowed to a

crawl. There is a limit, it seems, to the wizardry of the number-crunchers.

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Money for London

Feeding the milch cow

Feb 16th 2006
From The Economist print edition

Emboldened by its own success, London wants more money and power

FROM Dick Whittington on, whenever a British lad sets out to make his fortune, he heads to London. Britain's capital dominates national life in every way. It is more productive than the rest of the country, accounting for 18% of Britain's GDP with only 12% of its population. It has the best museums, the biggest theatres, the most foreigners and the most exciting jobs. Globalisation has only increased its economic dominance. The city is a world financial centre, and its population is growing by around 50,000 a year.

So it looked rather odd when, last week, London First, a business lobby group, released a report arguing that the capital needed more cash from central government. Despite the city's impressive growth, it wants the Treasury to put an extra £6.7 billion into transport and education in London by 2011.

This plea will startle other Britons, who, if they think of it, expect London's wealth to be redistributed to the rest of the country (one reason why London's public services are so poor). Certainly the official line used to be that London's development should be restrained so that the shires would not be left behind. The businessmen argue, correctly, that London competes for investment not with other British cities, but with the likes of New York, Paris and Shanghai. What's good for London is good for the rest of Britain, and without better transport links and a brighter workforce, the city risks losing the fickle foreigners who have fuelled its success.

In any case, not every London street is paved with gold. Parts of the capital are very deprived: three of Britain's five poorest districts are in London (see article). At 7.3%, its unemployment rate is the highest in the country.

The city's wealth, too, is skewed towards the extremes, as the chart shows, with more than half of residents in either the top or bottom national income quintiles (and both victims of London's appallingly high prices). That is in large part due to London's heavy dose of immigrants. A third of its workforce was born overseas, and migrant workers tend to be either very well educated or almost totally unskilled. More education and better transport, says London First, would both reduce deprivation and improve the capital's economy by allowing more people to get jobs.

Along with more money, Londoners want more control over how their city is run. Ken Livingstone, London's mayor, has far less power than, say, the mayor of New York but far more than his colleagues in other British cities. He has control of London's transport network, as well as limited powers over planning and the police. He can even levy a small tax on his citizens.

Mr Livingstone has made the most of his powers, especially in transport. His congestion-charging scheme has reduced traffic snarl-ups, and he has revitalised the bus network. Beginning in 2007, he will gain control over some of the commuter rail lines that serve the city.

Many Londoners see extending his powers as the key to further improvements. London First supports his bid for personal control over skills training, which is currently the preserve of regional agencies. Mr Livingstone has also suggested granting himself more powers over planning, to prevent his decisions being scuppered by unco-operative local authorities. A governmental review of his purview is due to report soon.

Yet despite this talk of more independence, London's fate still depends on central government, which holds the purse strings. Tony Travers, of the London School of Economics, points out that Mr Livingstone's own piggy-bank is now empty. London First claims that even if the mayor did get extra revenue-raising powers, new taxes would merely drive firms overseas. “If we want more cash for economic development,” says Mr Travers, “it will be a case of battering against the Treasury's door until they hand over the money.” There is an argument for letting London keep more of its own wealth to spend within its city limits. But convincing the rest of the country could be tricky.

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London's East End

The simmering pot

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From The Economist print edition

A new book reveals the depth of resentment towards newcomers in the East End

IN THE 1950s, Michael Young and Peter Willmott found something close to paradise in Bethnal Green. The east London neighbourhood might have been shattered by bombs, and its houses were shockingly crowded, but the white working-class folk who lived there were convivial, decent and proud. In their 1957 book “Family and Kinship in East London”, Young and Willmott described an almost miraculously cohesive society, where, as one resident told them, “you can just open the door and say hello to everybody.”

These days, many of the people who live in Bethnal Green are still poor and family-minded. Like their predecessors, they often go into the family trade. But they are less likely to be costermongers than curry chefs. Most arrived either directly from Bangladesh, in a wave that began in the 1960s, or are the children of Bangladeshi immigrants. And the cheerful Cockneys that charmed Young and Willmott 50 years ago? They are adrift, morose and full of bitterness about the new arrivals.

A book published this week* describes the calamity that befell the decent folk portrayed in “Family and Kinship”. It also does something unusual, which is to take seriously the views of embittered whites, and even to assume that they can correctly diagnose the causes of their sorry state. That is a brave decision, because the views of the white residents of Bethnal Green, like those of working-class whites in other British towns where Asians have settled, are frankly poisonous.

A typical view is expressed by one widower: “There are too many Bangladeshis over here, and when Big Daddy goes back to Bangladesh he brings more over here, and food with rice beetles. The house down the road was infested with rice beetles. My sister has been treated for TB and she caught it off the Bengalis.” He, at least, knows where the immigrants are from. To most whites, the people who have made their lives so miserable are simply “Pakis”. The sense of invasion is strong. “They have taken over everything, from schools to shops and houses,” says one woman.

Views such as these are often thought to be the preserve of angry young men with black boots. “The New East End” shows this notion to be a myth. The whites who are most hostile to Bangladeshis are the old, particularly those with large extended families—the “nans” who Young and Willmott found to be the pillars of the community in the 1950s.

Bethnal Green's whites are, in the awful argot of race relations, a “left-behind” group. Their children now perform worse at school than local Bangladeshis, which is particularly embarrassing given that the latter often arrive at school not speaking any English. In 2004, 39% of white 15-year-olds in the borough of Tower Hamlets earned five “good” GCSEs, compared with 50% of Bangladeshis. Many elderly whites have also been left behind in a more straightforward sense: their children have fled to Essex.

But the main reason for their bitterness has to do with changes in the welfare system. Traditionally, public housing was allocated on the basis of communal right. People earned better properties through good behaviour, by exploiting family connections, or simply by sticking around in an area. From the late 1960s, though, housing began to be doled out to the most needy. Local whites could not hold their own against a rapidly-growing immigrant population (in Tower Hamlets, there were 27,000 more Bangladeshis in 2001 than in 1991) whose claim on large properties was so much greater.

The authors of “The New East End” believe that, if Britain is to escape racial strife, something of the old, communitarian welfare system ought to be brought back again. That is bad advice, and is unlikely to be taken, despite the presence of such luminaries as Trevor Phillips, chair of the Commission for Racial Equality, and David Willetts, the Conservative Party's education spokesman, at the book's launch. The old system was flawed, not just because it was racially-biased but also because it discouraged people from moving in search of jobs.

The only thing that can rescue Bethnal Green's poor whites from bitterness is their own good humour. Gripes predominate in “The New East End”, but there are flashes of the old Cockney spirit. At one point, the authors asked a woman they call Alice Roe whether she knew the location of Bangladesh. The same question was put to all white interviewees, presumably to test their knowledge of the new arrivals. Ms Roe knew the answer: “just around the corner”.

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* “The New East End: Kinship, Race and Conflict”, by Geoff Dench, Kate Gavron and Michael Young. Profile Books, London.

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Corner stores

Shopping for trouble

Feb 16th 2006
From The Economist print edition

Protecting small shops may do more harm than good

THE village shop of Dorstone, a hamlet of about 250 souls on the border between England and Wales, has vexed far more people than its few square feet would warrant. For three years after their original store closed, the sheep farmers, artists and clockmaker who make up this little community would journey six miles to neighbouring parishes for milk and newspapers. Then they decided they wanted their local shop back.

Townsfolk formed a committee, bought shares in the new venture, won development funding from the European Union and local government, and had their plight aired in the House of Lords. In 1998, they built a new shop. Today, however, they are once again travelling six miles to buy milk. Two shopkeepers later, the store sells only local arts and crafts.

The Dorstone conundrum is one the rest of the country faces too. Most people want local butchers and bakers to give character and individuality to Britain's fast-cloning high streets. But they spend their own money in supermarkets.

This week, the all-party parliamentary Small Shops Group warned that small stores are being forced out of the market by supermarkets able to charge lower prices. It called for a halt to takeovers of corner shops by supermarkets, tighter planning restrictions in the suburbs and the establishment of a new regulator to maintain a “vibrant, diverse and sustainable retail sector”. It argued that the current competition regulator, the Office of Fair Trading, does not pay enough attention to small stores' “social and non-commercial” benefits. The OFT has already been asked to reconsider its refusal last August to refer big supermarket groups bidding for small stores to the higher Competition Commission. It is expected to pronounce in March.

The plight of the corner store is anything but unsung, yet the issue refuses to go away. Britain's four largest supermarket groups have almost 75% of the country's grocery market. Restrictive planning rules hobble them if they want to open new stores in the suburbs. Nor are they allowed to grow by buying each other. Tesco's cautious move into America, announced on February 9th, reflects, in part, frustration over the regulatory limits to growth in Britain. What they can still do is buy corner stores, and the result has been a proliferation of mini-Tescos and mini-Sainsburys.

At first glance, the parliamentary group has cause for worry. The number of independent convenience stores fell by about 7% last year, while those owned by supermarkets increased by roughly the same.

Yet a closer look at the data compiled by IGD, a grocery think-tank, reveals a more complex picture. First, convenience stores are beginning to band together in franchise groups to combat the purchasing power of the big chains by combining their own.

Second, corner stores' sales are growing faster than the groceries market overall, as people eschew the mammoth weekly shop to buy fresh food more often. Not all the fastest-growing shops are owned by supermarkets. Independent retailers are gaining ground in burgeoning markets such as organic food, where their sales jumped by 43% in the year to November.

However lamentable the loss of local identity, on the obvious measures, customers are better off. Food prices in Britain fell by 4.1% between 1999 and 2005 in real terms, and the range of groceries in supermarkets increased by 40%. The availability of cheap good food elsewhere should continue to foster quality on the high street.

And as for Dorstone, its inhabitants have made their own peace, it seems. A Tesco delivery van is regularly seen in the village, and among its stops are the homes of members of the shop committee.

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Bagehot

Gordon spreads his wings

Feb 16th 2006
From The Economist print edition

Talk of a dual premiership is wide of the mark, but the transition has begun

AFTER the shock of losing the safe seat of Dunfermline and West Fife to the Liberal Democrats last week, it was pardonable that some Blairites, weary of being made to feel grateful for Gordon Brown's carefully timed interventions to save the prime ministerial bacon, enjoyed a moment's *Schadenfreude*. If this was the best the "Thane of Fife" could do on his home patch, then what chance did he have of charming middle England?

The moment, it must be said, swiftly passed. Old habits die hard, but for once Blairites and Brownites are doing their best not to snipe at each other. Both camps are united in the belief that they have a duty to bring about a smooth transition of prime ministerial power.

Blaming Mr Brown for Dunfermline would have been wrong as well as unproductive. The leadership shenanigans of the Lib Dems were never going to dent their appeal to those who were looking for a receptacle of protest after nearly nine years of Labour rule. Voters know the party is not vying for government and, quite rationally, they hold it to a lower standard. Nor is there anything new in Mr Brown's lack of political clout in Scotland. It is to his credit that the low-grade hacks of the ruling Lanarkshire Labour mafia, with whom he repeatedly clashed during the by-election, see him as an outsider with dangerously radical views on the running of the sclerotic Scottish economy.

However, if it was absurd to extrapolate from Dunfermline that Mr Brown had suddenly become an electoral liability, the idea floated a couple of days later by Charles Clarke, the home secretary, that Tony Blair and Mr Brown were now engaged in some sort of "dual premiership" was almost as fanciful.

What has happened is that Mr Blair and Mr Brown have started to work together to meet the threat posed by David Cameron, the new Tory leader. Though he has suffered from Mr Brown's sometimes grudging backing for his public-service reforms, Mr Blair is as determined as the chancellor not to allow Mr Cameron's "roadblock Brown" tag to stick. He is also sympathetic to Mr Brown's desire to establish his credentials as the next prime minister by reaching out beyond the mostly financial issues with which he is associated in the mind of the electorate.

Mr Blair cannot be blamed for seeing in this an opportunity to exert some leverage. He is allowing Mr Brown to make a series of wide-ranging speeches that intrude far into the departmental responsibilities of other ministers. His price is that Mr Brown must abandon the pretence of semi-detachment from some of the trickier aspects of the government's legislative programme. As for the ministers whose turf is being invaded, any resentment is more than compensated for by Mr Brown's emergence, not before time, as a dedicated team-player.

The chancellor's speech this week on terrorism perfectly illustrated what is going on. In terms of its range and subject matter, it went far beyond anything that a chancellor would normally pronounce upon. In scope and tone it was undeniably prime ministerial. But the speech was also a powerful defence of two controversial measures that were to be debated in Parliament later in the week—introducing a national identity card scheme and outlawing the "glorification of terrorism" (see article). Mr Brown has a licence to roam, but not to deviate.

Over the next few months, Mr Brown will make further excursions off-piste with speeches covering crime, climate change, global competition and even avian flu. The linking theme will be that of security. In a threatening and dangerous world, he will present himself as a uniquely reassuring figure, whose experience and fixity of purpose equip him to find answers to the people's fears. From Mr Brown's point of view, it is an opportunity to contrast his solid strengths with Mr Cameron's superficial glitz, and to demonstrate that responsibility for doing the heavy lifting on long-term strategic stuff has passed to him. From Mr Blair's point of view, it keeps his successor on message up to and beyond the moment he himself decides to quit.

To those who were hoping that a Brown premiership would mark a break with the recent past in substance as well as style, it is all intensely frustrating. They look for nuances in what Mr Brown says to suggest that he will be different from Mr Blair, that he will be more punctilious about civil liberties, that what he means by reform is something other than what Mr Blair means by it. They will find comfort in telling themselves that Mr Brown's current positioning should not be confused with the things he will do when he finally escapes from Mr Blair's deadly embrace. At that point, they say, Mr Brown will be free to redefine the ground on which Labour will fight the next election.

Rights and responsibilities

Maybe. But there is another, rather more likely, possibility and that is that Mr Brown actually believes in what he is saying. The personal grudges and rivalries of Mr Blair and Mr Brown should not obscure the fact that the New Labour playbook, drawn up all those years ago, was a work of co-authorship in which chapter one decrees that the Tories should never be able to claim they are tougher on crime, terrorism or defence.

If Mr Brown were straining to try something new, it is also doubtful that he would have enlisted the help of Alastair Campbell and Philip Gould, two of Mr Blair's closest advisers over the past decade. It is hard to believe that Mr Gould, in particular, who still conducts and interprets much of Mr Blair's private polling, would argue for any departure from the territory he has so assiduously staked out for Mr Blair.

The transition is under way. It is likely to be a slow and delicate process in which there is plenty of

scope for things to go wrong. If Mr Blair and Mr Brown want to avoid that happening, they need to recognise each other's rights and responsibilities. And what could be more New Labour than that.

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European car firms

The big squeeze

Feb 16th 2006 | FRANKFURT AND PARIS
From The Economist print edition

AP

Is only just beginning for Europe's carmakers

JUST as General Motors has long been an icon of American business, so Volkswagen is a symbol of the German industrial economy. Unfortunately, the comparisons do not stop there. Late last year, GM announced big job cuts. On February 10th it was VW's turn. The company announced that over the next three years it will cut up to 20,000 jobs from its western German workforce of 103,000, as well as demanding longer hours from its workers for no extra pay—an announcement that was greeted with a 15% rise in the company's share price.

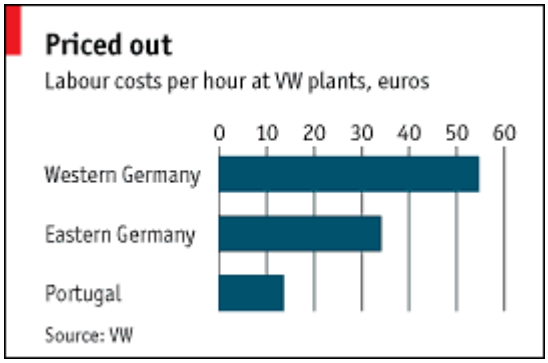
Where VW goes, much of Europe's car industry may follow. If they are to stay competitive, Renault, Fiat and PSA Peugeot-Citroën are all going to have to cut costs at home, and keep investing in lower-cost production abroad. Politicians and unions are anxious. VW has tried to soften the blow by saying that all its job losses will go through natural attrition.

The looming question is whether European carmakers can survive as providers of mass employment at home, given the huge discrepancy in labour costs between old Europe (particularly France and Germany) and the new (Romania, Slovakia and the Czech Republic)—not to mention China? The economy has a lot riding on the answer. Making vehicles and their components accounts for 1.8m jobs in Germany; and the car manufacturers' association claims that one in seven German jobs is directly or indirectly dependent on the car industry.

That explains why VW is having to tread carefully in Germany. This week it is presenting its workers' representatives in Wolfsburg with hard numbers—such as the statistic that labour at VW's

six plants in west Germany costs four times as much as at its plant in Portugal (see chart). Its emphasis on Portugal—while refusing to publicise figures for its plants in central Europe and China—may reflect the extreme political sensitivity in Germany of any suggestion that living standards are being undermined by competition from the EU's new member states. But had VW chosen to release the figures, the comparison would have been even starker. Car workers in the Czech Republic, for example, earn around €5.2 ($6.2) an hour. In China labour costs at car plants are around €1.1 an hour—around 50 times lower than in western Germany. Last year China became a net exporter of vehicles for the first time.

Small wonder that VW, as a global firm, is putting its weight behind investments in China (where it has two joint ventures, one 40%-owned the other 50%) and Russia, where it is building a new plant near Moscow. Political pressure swayed a recent decision to build VW's compact sport utility vehicle at Wolfsburg, rather than in Portugal—but that could be the last hurrah for the home team.



VW's problems are particularly acute. Its European factories have 20% surplus capacity, compared with 16% for Renault-Nissan and just 3% for BMW. But cuts are also happening elsewhere. DaimlerChrysler recently announced a 20% reduction of central-management staff, on top of plans to shed 8,500 jobs at Mercedes in Germany by September. But even DaimlerChrysler promised that, until 2012, it would cut only by natural attrition.

The French and Italian counterparts to VW and GM are also in trouble. Carlos Ghosn, boss of Renault, France's second-biggest carmaker, presented a four-year plan on February 9th. Much is expected of Mr Ghosn, who has become one of the biggest stars in the car industry since his rescue of Nissan, a Japanese carmaker partly owned by Renault. At Nissan, Mr Ghosn turned huge losses into huge profits and wiped out debts of some $23 billion in a few years.

Optimists hoped it would take him just a few months to fix Renault's smaller problems. But they may not have reckoned with the peculiarities of French politics, which make VW's behaviour seem almost unimaginably radical. Announcing job losses at a company in profit could well have sparked mass demonstrations and social unrest in France.

“I am not cutting jobs, because I don't have to,” Mr Ghosn declared. Others say that he is not laying off people because his hands are tied. The French state is his company's largest shareholder, with a 15% stake. And the CGT, the powerful Communist-dominated union, is in the background. It flexed its muscles with a small rally of about 1,000 Renault workers on the day the new strategy was announced. So with lay-offs ruled out for the moment, Mr Ghosn is going on the offensive—he aims to launch 26 new models over the next four years, and to make a push into the more profitable market for luxury cars. But he may ultimately have to try to cut jobs too. Renault's Sandouville plant, running at only 40% of capacity, is vulnerable.

Tough measures are as unpopular in Italy as they are in France and workers at Fiat, Italy's biggest carmaker, also have a history of dramatic industrial action. Sergio Marchionne, Mr Ghosn's counterpart at Fiat, has been able to cut the workforce by about 15% since he arrived in May 2004 only because the company's very survival was in question. Even then he could do little more than freeze the jobs of workers due to retire and use a government-sponsored scheme to lay off workers temporarily. But he is likely to come back for more after the elections on April 9th.

Some voices of gloom predict that in ten to 15 years car production in western Europe will be

virtually extinct. The BMW plant in Leipzig, which opened last year, is likely to be the last big car-assembly plant to open in western Europe, says Ferdinand Dudenhöffer, head of the Centre for Automotive Research in Gelsenkirchen. It was generously subsidised by the German federal government. By contrast, western European firms need relatively little inducement to invest in central Europe. Peugeot is producing some 300,000 cars a year in the Czech Republic in a joint venture with Toyota. It has also opened a car plant in Slovakia, as have VW, Ford and Hyundai. Renault is doing well at its Dacia subsidiary in Romania. Fiat is producing the Panda in Poland.

Though the struggles of American companies such as GM—with high labour costs, powerful trades unions and shrinking market share—might sound familiar to some European car bosses, the United States also offers more hopeful pointers. In America's southern states, car plants paying $25 in hourly wages are doing well, because they are close to the market, flexible, quick to fulfil orders and produce high-quality cars. The need for vehicles containing new energy-efficient technologies and lighter materials may also allow west European producers to carve out a future at the hi-tech end of the market. VW's beleaguered managers and workers will certainly be hoping so.

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Internet business

Gurgle

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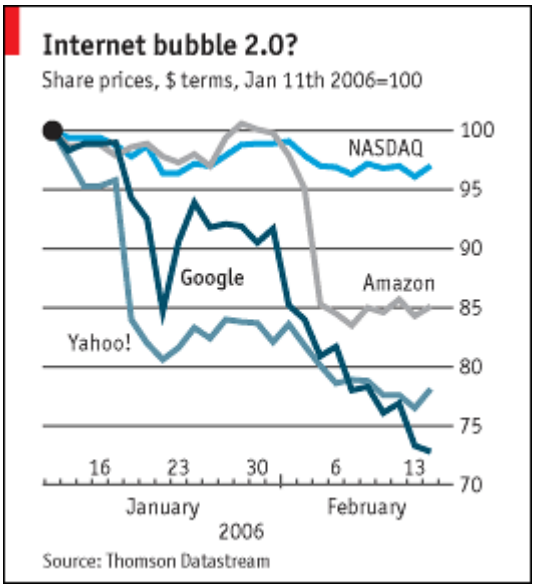
Enthusiasm for Google drains away as doubts set in



SERVING fine wines to chief executives and "global leaders" too drunk to appreciate it made Google's party the talk of last month's World Economic Forum in Davos. Its generosity with 1959 clarets and 1990 Krug champagne seemed, at the time, only to confirm the firm's greatness. Yet, three weeks on, Google's pristine reputation has been damaged by its willingness to collaborate with the Chinese government's censorship requirements, its shares have tumbled, and the Davos party is in danger of resembling the Great Gatsby's glorious last hurrah.

Google's share price peaked a couple of weeks before Davos, at $475, on January 11th. After slipping during the rest of the month, the price plunged on February 1st, after the firm reported results that disappointed Wall Street analysts, and then plummeted again this week—for no obvious reason—to $343 on February 14th. In barely a month, some $38 billion has been wiped off the firm's market capitalisation, which now stands at a mere $101 billion. Investors have fallen out of love with Google. Is there a good reason for this?

On the face of it, that Google's results disappointed analysts is no grounds for panic, especially as—for all the right reasons—the company refuses to give analysts advance "guidance" about its likely performance. (Most firms are happy to play the Wall Street earnings game, whereby their guidance ensures that their results typically come in a fraction better than the analysts predict.) In fact, Google's latest results were strong—profits of $814m in the fourth quarter of 2005, net revenue up by 23% quarter-on-quarter—and certainly provided no basis for investors to slash one-quarter off the firm's value. Moreover, shares of the other internet superstars—eBay, Yahoo! and Amazon—have also tumbled this year (see chart), suggesting that this may have more to do with a decline in investor exuberance towards the internet than in the underlying performance and prospects of the firms themselves.

A serious debate about how to value internet shares, and above all those of Google, is long overdue. Since the disappointing months after Google's initial public offering in August 2004, when the shares appeared to have been overpriced at $85, they had risen inexorably, without anyone providing a particularly compelling reason why. An article in last week's *Barron's* newspaper suggested that—on plausible assumptions—the right price for Google shares could be as little as $188. Yet some bulls think there remains plenty of upside: Mark Stahlman of Caris & Co, a brokerage firm, has $2,000 as a long-term target, on the assumption that Google eventually wins a 1% share of the global digital-services business.

Having survived the 2000 internet bubble—almost alone among Wall Street internet analysts—Mary Meeker of Morgan Stanley is keen to be seen as prudent in her bullishness. Yet like most of her peers, she thinks the shares are worth more than $400. Discounting expected cash flow for the coming ten years, she calculates a fair price of $413. Using other valuation techniques, she gets as high as $597. But these valuations all rely on Google delivering the now expected future performance—which, as is clear from its current high ratio of share price to profits of 68 (compared with an average of 18 for the S&P 500), means spectacular growth. Whether it will achieve this growth, or even come close, is frankly anyone's guess, especially given how rapidly its market is evolving—a risk factor that surely argues for a far larger discount rate to be applied to future cash flow than the 11.5% in the Meeker model.

On the other hand, as Ms Meeker points out, Google has so far consistently beaten her forecasts, both for revenues and for profit margins. Strikingly, just after Google went public, she predicted that it would generate revenues of $7 per user in 2005, up from $2 in 2002. In fact, it generated $10 per user—a number that, she plausibly argues, can be greatly improved on as ever more advertising dollars shift to new media from old (which still account for 95% of total advertising spending).

One reason that Google has been able to exceed earnings expectations in recent years is that the full-frontal attack some analysts predicted from Microsoft has yet to materialise. Ms Meeker had forecast a competitive search product from Microsoft by Christmas 2004, supported by a $100m advertising campaign. The passage of time has allowed Google to deepen its relations with its customers, making it more able to fight off competitors. Yet, ominously, Microsoft's share price has edged higher as Google's has tumbled. Will Google be serving cheap plonk in Davos next year?

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Hispanic media

Reunited

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America's biggest Spanish-language television company is up for sale

HISPANICS make up 14% of America's population now, and the government expects the figure to rise to about 20% by 2030. Border guards do everything they can to keep out illegal immigrants, and politicians fret that the wave of Spanish-speakers could divide the nation. The media industry, on the other hand, is delighted. Hispanic television audiences are growing fast and advertisers are chasing them. Last week Univision Communications, North America's biggest Spanish-language media company, said it would seek a buyer, causing great interest among media executives. Rupert Murdoch, boss of News Corporation, and Haim Saban, the largest investor in ProSiebenSat.1 in Germany, immediately announced their interest in the company.

Univision has a stockmarket value of $12 billion, and makes most of its money from television—from two national broadcast TV networks, its TV stations and its cable-TV network—and the rest from radio stations and its music business.

While English-language broadcast networks watch their audiences fall as people shift to cable TV and the internet, Univision's young prime-time audience is growing by more than 20% a year. In 2005 its broadcast network attracted on average 1.3m adults in the 18-34 category during prime time, only 12% less than NBC, America's fourth-most-popular network. Its profits are expected to grow by more than 20% this year.

Some analysts wonder if Univision can keep up its rate of growth as Hispanics assimilate and turn to English-language media. There is no sign of that becoming a problem, however, because there are so many new immigrants each year, and because many want to keep in touch with Mexican culture. As a group, Hispanics watch more Spanish-language TV during prime-time than English-language programming, according to Nielsen Media Research, a reversal from just a few years ago. Neither have rival Spanish-language broadcasters, such as Telemundo, which was bought by General Electric in 2002, made much of an inroad on to its territory.

Hispanic interest groups are already up in arms about the possibility of another gringo winning control of their favourite broadcaster. The greater likelihood, however, is that Grupo Televisa, Mexico's dominant TV broadcaster, will step in. Televisa's founder, Emilio Azcárraga Vidaurreta, also started the company that grew into Univision, but the family was forced to sell in 1986 because of America's rules against foreigners owning broadcast assets. Now his grandson, Emilio Azcárraga Jean, chief executive of Televisa, is determined to push back across the border.

The reason why Televisa will probably beat Mr Murdoch and other big American media companies to the prize in the end is that it makes a lot of Univision's most popular programming. Televisa is the Hollywood of Spanish-language programming, says Jessica Reif Cohen, an analyst at Merrill Lynch, and a master of the genre of *telenovelas*—melodramatic, sentimental soap operas such as the top-rated “Piel de Otoño”, about an abused wife who makes a journey to Spain. “Without

Televisa, Univision is nothing," says an American shareholder in Televisa.

Under a deal struck years ago, Televisa is committed to supply programming to Univision until 2017 in return for a small share of revenues. Televisa is unhappy with the arrangement, and at the beginning of February it alleged a material breach of their contract by Univision. Some people, indeed, think that Univision's 75-year-old controlling shareholder, Jerrold Perenchio, is selling now partly because he does not want the hassle of dealing with all Televisa's complaints.

Because of restrictions on foreigners in broadcasting, Televisa cannot buy the whole company outright (it owns 11%) but it could join a private-equity firm or find another way to structure a deal to bind Univision's future more closely to its own. For the longer term, Mr Azcárraga plans to emulate Rupert Murdoch and become an American citizen—alongside millions of Televisa's and Univision's viewers.

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Spanish companies

Corporate conquistadors

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From The Economist print edition

Why Spanish companies are expanding abroad

SINCE the return of democracy, the Spanish have rediscovered the outside world. None more so than the country's businessmen, whose exuberant expansionism has led to them being dubbed, the "new *conquistadores*"—the heirs to adventurers like Hernán Cortés, who built the Spanish Empire.

The purchase of the British Airport Authority (BAA) may, admittedly, not rank quite as high in the annals of history as the conquest of Mexico. But a planned bid by Ferrovial, a construction and services group, for BAA, which runs Heathrow and several other big airports (see article), is just the latest evidence of the emergence of Spanish firms as a global force. Buoyed by healthy profits, a rising stockmarket, and a purring economy, Spanish firms are increasingly using audacious—and expensive—deals to expand abroad. Their acquisition spree means that Spain is already home to the biggest bank in continental Europe—Santander; to five of the top seven European construction groups; and to Telefónica, the third-biggest telecoms company in the world.

Spanish companies have been building a presence in Latin America for more than a decade. Europe is their new battleground. Telefónica, a former telephone monopoly, warmed up last year by buying Cesky Telecom, the Czech incumbent, for almost €5 billion ($5.95 billion). Then it snared O2, Britain's second-largest mobile operator, for €26 billion. Santander snapped up Abbey, a British bank, in 2004 for £8 billion ($14.8 billion). Last year it also gained a foothold in the American market by spending $2.4 billion for a 20% stake in Sovereign, a Philadelphia-area lender. In 2005 Metrovacesa created Europe's largest property company by buying control of Gecina, a French firm, for €3.8 billion. A host of smaller Spanish companies have also planted their flags in America, eastern Europe and Asia.

Why are Spanish companies—hailing from a middle-sized country with little entrepreneurial tradition, income levels that are still below the EU average, weak language skills and few natural resources—becoming the hunters, and not the hunted? Low interest rates and the single European currency have helped by making financing cheaper. But that holds true for companies across the 12-country euro zone. Mauro Guillén, a professor at Wharton, an American business school, argues that Spanish firms have two additional advantages. First, many used expansion in Latin America as a training ground, gaining size and management skills, and hoarding cash. Second, Spain has opened its domestic markets to competition more quickly and more thoroughly than many other European countries. That has taught Spanish firms to sink or swim.

There are also domestic forces pushing the Spanish acquisition boom. The tax code encourages expansionism—under Spanish law, goodwill acquired during foreign takeovers is tax-deductible. More important, there is a growing sense that—after a great run—the Spanish economy is due to slow down. A boom that has been led by construction and consumption may run out of steam, as consumers nurse their debts and EU subsidies for infrastructure are increasingly switched to central Europe. Banks and builders, in particular, are hedging their bets by moving abroad and

diversifying their businesses.

Ferrovial, for instance, wants a piece of BAA's predictable and profitable business running airports as an antidote to the cyclical nature of construction. It already operates toll roads in Canada and the United States, earning better returns than at home. Metrovacesa jumped into France and became a corporate landlord, says its chairman, Joaquín Rivero, “because shareholders want more stable, constant returns” than they can get at the swollen end of Spain's property bubble. Banks, too, have fattened up on the housing market through mortgages; Spain has the highest rate of home-ownership in Europe. Even though default risks remain low, they think turning around inefficient banks elsewhere in Europe may offer the best bet for future growth. Some, like Santander, have quietly expanded into other business lines; its consumer-credit division is Europe's biggest car financier.

What is next? Banco Bilbao Vizcaya Argentaria, Santander's big domestic rival, was thwarted when it tried to break into Italy last year. Francisco González, its chairman, says the bank still has global ambitions—hinting at big deals to come. Santander, meanwhile, shows no signs of slowing down. It may launch a cross-border deal in the euro zone, now that Abbey is back on track. Spanish builders are still flush with cash, too. Acciona, a construction and services firm, announced on February 13th that it plans to spend €220m building a solar plant in Nevada. And no one rules out another move by Telefónica. Spain's corporate *conquistadores* may just be getting started.

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German wine

Wine-swilling hordes

Feb 16th 2006 | FRANKFURT
From The Economist print edition

A daring bid to convert thousands of football fans

AFP

How about a nice glass of Riesling?

WINE could replace beer as the staple German drink this summer if the German Wine Institute (DWI) gets its way. The DWI has secured exclusive rights for more than 50 of its members to sell wine in German stadiums and VIP lounges during football's World Cup later this summer. German brewers, to the chagrin of many, failed to secure the beer franchise, which the organisers, FIFA, sold to Anheuser-Busch, the American brewers responsible for Budweiser, for a reported €40m ($47.6m).

German winegrowers see the football tournament as an unparalleled opportunity to smash the country's beer-hall stereotype—and restore the fading fortunes of German winemakers. To ease the transition from grain to grape, the wine institute believes it has found a perfect and readily available gastronomic companion: the Bavarian *Weisswurst*, a rubbery white sausage usually drowned in sweet mustard. What could be better to replace the usual accompanying tipple of murky wheat beer than a glass of tart, delicious Riesling? Klaus Schaller, director of a world-famous wine research institute at Geisenheim in the Rheingau, insists that the blend of mustard, wurst and wine tastes good.

The combination was first introduced by a football team of winemakers last June, on the eve of a match in Munich against a team of gourmet chefs. It met with considerable acclaim. But it remains to be seen whether wine and *Weisswurst* will impress the full spectrum of football enthusiasts, from head of state to hooligan.

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Ambush marketing

War minus the shooting

Feb 16th 2006
From The Economist print edition

As the costs of sports sponsorship rise, some firms opt to break the rules

AFP

Coke flies the flag—officially

THE Winter Olympics in Turin is the site of brutal combat, dramatic rivalries and tests of cunning and will. As for the athletes, they also compete. But the real battle is among corporate sponsors, who have put up more than $1 billion over the past four years to support the event—and now must stay one step ahead of firms that have paid nothing, but still seek to use the games to flaunt their brands.

Ambush marketing—piggy-backing on a big sporting event by non-sponsors—has grown steadily since the practice burst out of bounds a decade ago. At the 1996 Olympics in Atlanta, Nike handed out caps at transport hubs that spectators wore into the stadium—to the consternation of Reebok, a sponsor. In some cases, rogue brands boast a higher sponsor-recognition rate than the firms that foot the bills.

Such a situation is intolerable to both organisers and official sponsors, who are determined to use the law to protect their interests. FIFA, the world football authority, which is organising this year's World Cup in Germany, will use contract law. Tickets are actually revocable licences between the event venue and the spectator—and the terms and conditions (which no fan ever reads) ban such things as ticket give-aways or attending *en masse* in clothing emblazoned with unauthorised logos. Thus if hordes of fans turn up at one of the games this summer carrying Pepsi drink-tumblers or wearing Google caps, they may have to hand them over or be barred entry to protect the real sponsors—Coke and Yahoo!

In fact, FIFA is already hard at work. On February 8th it trumpeted that it had won an injunction against Burger King Israel, barring it from holding a contest to give away tickets and travel packages to the World Cup in Germany this summer; only official sponsors (in this case, McDonald's) can run promotions with tickets and World Cup trademarks. So far, FIFA has gone after more than 1,200 infringement cases in 65 countries.

This week Britain's House of Lords began debating the anti-ambush-marketing provisions in the London Olympics Bill, which among other things would prohibit uses of terms like “gold”, “summer” and “2012” in advertisements by non-sponsors, that “seek to create an unauthorised association” with the games. Critics of the Olympic legislation regard it as an outrageous breach of free speech. Marina Palomba of the Institute of Practitioners in Advertising, says that if the legislation is passed, it could even be used to block non-sponsors from basic business communications, such as trying to woo visitors to London to see the games. In this way, policies meant to support sponsorship start to look like anti-competitive protectionism, says Boris Uphoff,

a lawyer with McDermott Will & Emery in Munich.

One can sympathise with the needs of the organisers and their sponsors. The costs of putting on sporting events like the Olympics or the World Cup are huge. The budget for the Winter Olympics in Turin is €1.2 billion ($1.4 billion) for the games—with an extra €2.5 billion in infrastructure costs to be picked up by the hosts. Generally, sponsorship represents around 35% of revenues, with broadcasting accounting for slightly more than half and the rest from ticket sales and licensing—or, in the last resort, taxpayers. In London in 2012, total costs are estimated to be £4 billion ($7 billion), and big sponsors will be expected to cough up more than £50m apiece.

The sums spent on sponsorship are soaring. The 1998 FIFA World Cup brought in around €60m; this year it will garner €700m and the 2010 event in South Africa (where anti-ambush-marketing legislation is already being implemented) is expected to bring in €1 billion. “There is a moral argument that the World Cup is like summer—it comes and it goes—and it must therefore belong to everybody. FIFA's philosophical policy is ‘no'. Somebody has to invest a lot of money. And that is FIFA, supported by countries and cities, to build streets and stadiums and pay security costs,” explains Gregor Lentze of FIFA.

It sounds fair enough. But football supporters, already enraged by the number of tickets doled out to sponsors rather than real fans, may object if they find themselves as extras in somebody else's corporate video.

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The fertility business

Cupidity

Feb 16th 2006 | NEW YORK
From The Economist print edition

A baby-booming business

THERE is no better time than the commercial orgy that is Valentine's Day to consider the baby business. So with impeccable timing, Debora Spar, a Harvard Business School professor, has just published a fascinating book exploring how “money, science and politics drive the commerce of conception”.

Happily, this is not an attempt by the management profession to reduce baby-making to strategic alliances and stretch values. But in “The Baby Business” (Harvard Business School Press) Ms Spar does take seriously the idea that there is enormous demand for better ways of creating children coming from those who find that the old-fashioned way does not work—or gives them too little control over the screaming end-product. This demand is creating a spectacular increase in supply of techniques, technologies and businesses that span everything from the egg to the mother.

Fertility treatment is a business with more than 1m customers and revenues of $3 billion a year in America alone. Top-quality eggs—from a female HBS student, say—cost about $50,000. A surrogate mother costs about $59,000. Guatemala generates around $50m a year by exporting babies at around $25,000 a time. These businesses thrive, in part, because they are in a global industry that is regulated nationally, which leaves huge loopholes to be exploited by the customer willing to travel.

Thus, the Cryos International Sperm Bank in Denmark is the world's largest exporter of sperm (no news yet on whether an Islamic boycott has hurt business). Guatemala's baby exports are facilitated by comprehensive, but permissive, adoption laws. And America has become a global centre for fertility treatment, because—unlike in, say, Britain—the industry is largely unregulated.

Ms Spar, however, believes in the need for better regulation. She argues that governments confuse four different models of the baby market—the “luxury model” (buying a baby is like buying jewellery); the “cocaine model” (it should be banned); the “kidney model” (donation okay, trading not); and the “hip-replacement model” (some subsidy, some private supply). Instead, she wants governments to agree on regulations that curb abuses, but allow the market to function. However, given the political and ethical issues that the baby business raises, such a global consensus seems, well, inconceivable.

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Face value

Making the trains run on time

Feb 16th 2006
From The Economist print edition

AFP

Elattuvalapil Sreedharan has become a hero in India by doing the seemingly impossible

ALL over India, the ultra-modern jostles jarringly beside the medieval—or, these days, underneath it. At Chawri Bazar, in old Delhi, bicycle-rickshaw riders tout for business, while stray cows lounge around in the middle of the roundabout. They are ready to greet those emerging from the 21st century—the deepest station in Delhi's underground-rail network. The passengers have travelled on fast, punctual trains, and arrived to a spotlessly clean station. The ticket barriers, using tokens and smart cards, are state-of-the-art, and the three-stage escalator glides smoothly up to the surface.

Indian infrastructure is famously decrepit and is often cited as the single biggest impediment to economic growth. So Delhi is justifiably proud of its metro. Joyriders are common—in fact, the fare system has just been tweaked to deter them. Many other Indian infrastructure projects suffer controversy, scandal, delay and extra cost. An eight-year-old effort to modernise the embarrassingly shoddy airports in Delhi and Mumbai, for example, has this month suffered a nationwide strike by airport workers, and legal challenges to the contracts that have, at long last, been placed. The 17km (10 mile) metro in Kolkata (Calcutta) took 22 years to build and revised its budget upward on 14 occasions. Yet, when phase one of Delhi's three-stage metro project was completed in December, with the opening of a third line, bringing the length of the network to 56km, it was on budget and nearly three years ahead of schedule.

That it was built at all has brought kudos to Elattuvalapil Sreedharan, managing director of the Delhi Metro Rail Corporation (DMRC). That it was built so quickly, works so well and bears comparison to the best in the world has made him a national hero. Opening the new line, India's

prime minister, Manmohan Singh, called Mr Sreedharan “a role model for future generations”. The adulation is a mixed blessing for a man who says he wants to retire. Already 73, he has agreed to work for three more years. This will allow him to see phase two—another 53km—well on the way to its deadline, of the summer of 2010, in time for the Commonwealth Games in Delhi.

Besides the day job, the government has called on his advice for metro projects in Ahmedabad, Bangalore, Chennai, Hyderabad, Kochi, Kolkata and Mumbai. He was even dragged into the airport-modernisation mess, as head of a committee appointed to examine the tender process.

Mr Sreedharan has a disarmingly simple explanation for his success: the ownership structure of DMRC. Half the equity is held by the central government, and half by the Delhi authorities. Instead of doubling the amount of bureaucratic meddling, Mr Sreedharan says this almost eliminates it: there is no government ministry to which every file has to be passed. Decision-making is speeded up further by the board's delegation of authority to him. When he took the job in 1997—seven years after his scheduled retirement—he demanded, and was given, full power to pick his team and a promise of non-interference.

That shows how much respect he already commanded. An engineer and career officer of state-owned Indian Railways, he had spent much of the 1990s running what was then the world's biggest overground-railway building project. This was the Konkan Railway, along India's south-western coast, which was the first such infrastructure contract in India ever awarded on “build, operate and transfer” principles.

Mr Sreedharan's experience taught him two lessons that seem obvious enough, but that many other developers of infrastructure in India have yet to learn. The first is to insist on the global best, rather than to favour Indian firms. The metro's consultants are led by a consortium from Japan (whose government has financed two-thirds of the metro's cost through a soft loan); the signalling and fare-collection systems are French, the rolling-stock Korean.

The second is an emphasis on avoiding the scourge that plagues so many Indian public-sector ventures: corruption. He has tried to purify DMRC's procurement processes by removing almost every element of subjectivity from tender-evaluation. He has also had to show the door to some employees who did not meet his exacting standards.

Pure at heart

Western prejudice might expect such a demanding boss to be some kind of tartar. Mr Sreedharan's own management philosophy sounds so glibly aggressive as to be positively American: “lead from the front, not push from the rear”. But he is not prone to table-thumping harangues. In fact, he seems more like a monk than a manager. He puts his continued health and sharpness down to a “very disciplined life”, of yoga, walks, jogging and controlled eating. His only recreation, he says, is “reading spiritual books”, which gives him “mental composure” and makes him “pure at heart”.

The new line has recently suffered some minor disruption. Earlier this month, part of it had to be shut for 90 minutes when a bird dropped a wet twig on some part of the wiring. There has been occasional trouble with points and the signalling, causing a few services to be cancelled, and some worries about crowd management and the risk of stampedes. Mr Sreedharan explains that the metro could not be “rude” to its customers by closing stations. Such courtesy is a rarity.

Mr Sreedharan denies that the zest for beating deadlines was a factor in any of the new line's “teething troubles”; nor has his reputation suffered. If he is criticised, it is for becoming indispensable, a charge he also denies, claiming there is a “good line of successors”. He is right

that the principles he has followed should not need him to enforce them. Mr Sreedharan may be the exception, but his practices could be the rule.

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Correction: Heye and Partner

Feb 16th 2006
From The Economist print edition

In the "Face value" column of January 7th we stated that McDonald's advertising slogan "i'm lovin' it" was created by the Publicis group. In fact its creator is Heye & Partner, based in Munich and part of DDB Worldwide Communications.

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The ageing workforce

Turning boomers into boomerangs

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From The Economist print edition

Corbis

Older workers want to retire later; companies fear they will soon be short of skills. Why can't the two get together?

LAST month the first baby-boomers turned 60. The bulky generation born between 1946 and 1964 is heading towards retirement. The looming “demographic cliff” will see vast numbers of skilled workers dispatched from the labour force. In a forthcoming book (“Workforce Crisis” by Ken Dychtwald, Tamara Erickson and Robert Morison) the authors paint a gloomy picture of a shortage of skills and a cut in the supply of labour that are “already threatening the performance of many corporations”.

The workforce is ageing across the rich world. Within the EU the number of workers aged between 50 and 64 will increase by 25% over the next two decades, while those aged 20-29 will decrease by 20%. In Japan almost 20% of the population is already over 65, the highest share in the world. And in the United States the number of workers aged 55-64 will have increased by more than half in this decade, at the same time as the 35- to 44-year-olds decline by 10%.

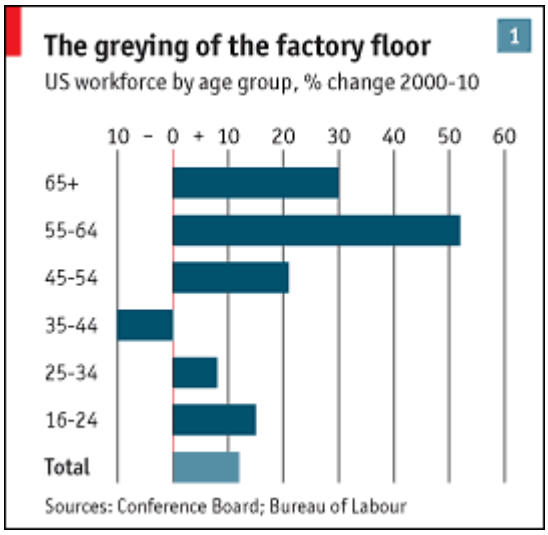
Given that most societies are geared to retirement at around 65, companies have a looming problem of knowledge management, of making sure that the boomers do not leave before they have handed over their expertise along with the office keys and their e-mail address. A survey of human-resources directors by IBM last year concluded: “When the baby-boomer generation retires, many companies will find out too late that a career's worth of experience has walked out the door, leaving insufficient talent to fill the void.”

Some also face a shortage of expertise. In aerospace and defence, for example, as much as 40% of the workforce in some companies will be eligible to retire within the next five years. At the same time, the number of engineering graduates in developed countries is in steep decline.

A few companies are so squeezed that they are already taking exceptional measures. Earlier this year the *Los Angeles Times* interviewed an enterprising Australian who was staying in Beverly Hills while he tried to persuade locals to emigrate to Toowoomba, Queensland, to work for his engineering company there. Toowoomba today; the rest of the developed world tomorrow?

If you look hard enough, you can find companies that have begun to adapt the workplace to older workers. The AARP, an American association for the over-50s, produces an annual list of the best employers of its members. Health-care firms invariably come near the top because they are one of the industries most in need of skilled labour. Other sectors similarly affected, says the Conference Board, include oil, gas, energy and government.

Near the top of the AARP's latest list comes Deere & Company, a no-nonsense industrial-equipment manufacturer based in Moline, Illinois; about 35% of Deere's 46,000 employees are over 50 and a number of them are in their 70s. Rick McAnally, the company's director of human resources, says that Deere has no overall policy in favour of older workers. It does, however, try to recruit people who will stay with the company for their whole careers, and a number of its employees have more than 40 years' service. The tools it uses to achieve that—flexible working, telecommuting, and so forth—also coincidentally help older workers to extend their working lives. The company spends “a lot of time” on the ergonomics of its factories, making jobs there less tiring, which enables older workers to stay at them for longer.



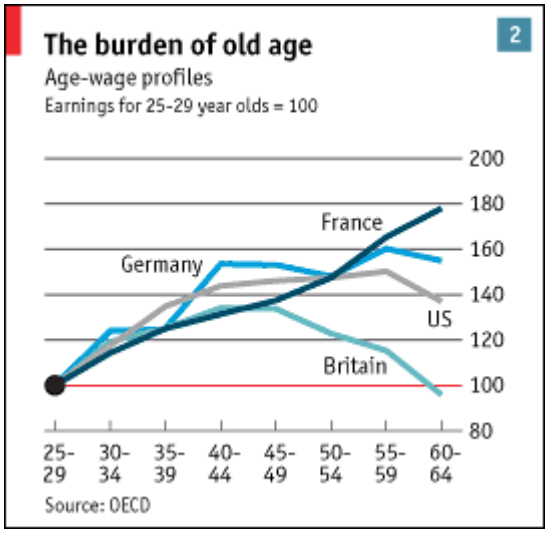
Likewise, for more than a decade, Toyota, arguably the world's most advanced manufacturer, has adapted its workstations to older workers. The shortage of skilled labour available to the automotive industry (those engineers again) has made it unusually keen to recruit older workers. BMW recently set up a factory in Leipzig that expressly set out to employ people over the age of 45. Needs must when the devil drives.

Other firms are polishing their alumni networks. IBM uses its network to recruit retired people for particular projects. Ernst & Young, a professional-services firm, has about 30,000 registered alumni, and about 25% of its “experienced” new recruits are boomerangs (former employees who return after an absence). Helen Walsh, director of the firm's alumni network (and herself a boomerang), says it is particularly helpful in attracting women back into the workforce.

But such examples are unusual. A survey in America last month by Ernst & Young found that “although corporate America foresees a significant workforce shortage as boomers retire, it is not dealing with the issue.” Almost three-quarters of the 1,400 global companies questioned by Deloitte last year said they expected a shortage of salaried staff over the next three to five years. Yet few of them are looking to older workers to fill that shortage; and even fewer are looking to them to fill another gap that has already appeared. Many firms in Europe and America complain that they struggle to find qualified directors for their boards—this when the pool of retired talent from those very same firms is growing by leaps and bounds.

Why are firms not working harder to keep old employees? Part of the reason is that the crunch has been beyond the horizon of most managers. Nor is hanging on to older workers the only way to cope with a falling supply of labour. The participation of developing

countries in the world economy has increased the overall supply—whatever the local effect of demographics in the rich countries. A vast amount of work is being sent offshore to such places as China and India and more will go in future. Some countries, such as Australia, are relaxing their immigration policies to allow much needed skills to come in from abroad. Others will avoid the need for workers by spending money on machinery and automation.



Yet older workers are an obvious source of labour, partly because they have good reason to continue working. In a widely quoted article ("Will There Really Be a Labour Shortage?") Peter Cappelli, of the Wharton business school in Philadelphia, argues that "baby-boom workers simply will not be retiring from work in the numbers that many people expect". One reason is that their pensions will not be as generous as they believed—a succession of big firms, such as IBM, General Motors and, in Britain, the Co-operative Society and the Nationwide building society, have announced that they are to trim retirement benefits. A recent Harris/*Wall Street Journal* survey found that 39% of Americans over 54 now doubt they will have sufficient money for old age. Mr Cappelli concluded that enough of them might stay on to shift the trajectory of the labour force. Using US Bureau of Labour statistics, he predicted that "the labour force will in fact rise from 153m in 2000 to 159m in 2010".

Yet there are plenty of obstacles to overcome if that is to happen. In many European countries, one of the biggest is pay. Adecco, a large global recruitment agency, says that in France and Germany 50- to 65-year-olds earn 60-70% more, on average, than 25- to 30-year-olds. But in Britain they earn more or less the same. That is one reason why more older people are employed in Britain than in Germany. In 1990 the unemployment rate among 55- to 64-year-olds in the two countries was more or less the same—7.2% in Britain and 7.7% in Germany. By 2003, however, the rates were 3.3% and 9.7% respectively.

Companies in continental Europe and Japan are finding it harder to detach age from seniority (and cost) than rivals in America and Britain. At Wal-Mart, a huge American retailer, managers fresh out of college in the southern American states oversee women workers old enough to be their mothers. Ranjit de Sousa, Adecco's director of corporate development, cites one company where the average age of the managers is 35, while that of the employees who report to them is 42. If older workers want to stay in the workforce, they need to accept this topsy-turvy hierarchy.

In some businesses early retirement is institutionalised. At professional-service companies, such as law and accounting firms, partners are encouraged to move out at an early age, often as young as 55, so as to encourage juniors with the promise of becoming a partner. At Deloitte, one of the world's biggest accounting firms, the official retirement age for partners—60—is written into the partnership agreement.

Change the reward system and the age profile changes too. Although British law firms have a "lock-step" reward system, giving partners more or less equal shares of the profits, partners in American firms tend to "eat what they kill". The American system enables older partners to stay on, because they are not an unfair burden. When Jerome Shestack approached the mandatory partners' retirement age (of 68) at his law firm in Philadelphia, he joined another without that condition. He retired from Wolf, Block, Schorr and Solis-Cohen earlier this month at 82. At 74 he was president of the American Bar Association.

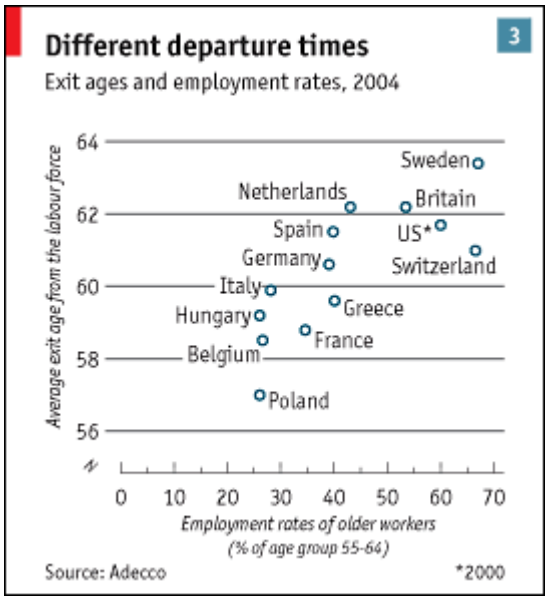
The government has a big part to play. Switzerland has legislation enabling people who stay at work for up to five years beyond the statutory retirement age to increase their state pension by up to SFr5,000 ($3,825) a year when they eventually draw it. That helps explain why more than 60% of all 55- to 64-year-old Swiss are in work, compared with less than 30% in Italy and Belgium. (For Italy, which has one of the lowest fertility rates in Europe and one of the lowest average retirement ages, the demographic cliff is a precipice looming at its feet.)

In some countries the tax system works against older workers. Britain will not let a taxpayer receive a pension and a salary from the same employer. In America pension schemes will often withhold benefits from a retired person if he is rehired or works for more than 40 hours a month. Companies wishing to hire their pensioners have to find ways round the rules. Japanese companies such as Mazda rehire them on one-year renewable contracts.

Staying on

Legislation designed to help older workers can act against them. In some ways, America's Age Discrimination in Employment Act discourages the rehiring of retired workers, by requiring that all employees receive equal benefits, such as health-care insurance. That is invariably more expensive for older employees, so it acts as a deterrent to hiring them. Similar legislation is due to come into force in Britain in October this year, following an EU directive compelling member states to outlaw discrimination on the grounds of age.

Even if the law changes, older workers must still overcome hostile attitudes at work. Many people assume that older employees are less motivated, take more sick leave and cost more. The evidence is that many people over 65 have plenty to offer even if they are no longer at their peak (see article). Some studies show that the over-40s are less likely to be off sick, and are more highly motivated and productive (except where great physical effort is required).



The best thing managers can do is to make work flexible. Much of this accords with what women and younger workers say they want. IBM believes that one of the reasons people come to work for it “is because we take workplace flexibility seriously”. Flexibility appeals to all ages.

The encouragement for older workers to stay is often a by-product of other initiatives. Many companies are cultivating a more diverse workforce, partly because legislation in some countries decrees it, partly because they believe it can help them. Although diversity means chiefly recruiting more women and ethnic minorities, it (almost by default) helps older workers, too. Measures, such as flexible work schedules, designed to encourage mothers to return to the workforce can also encourage older workers to stay.

Oddly enough, older workers stand to gain from efforts to recruit younger workers. Sabri Challah, the head of Deloitte's human-capital practice, says that companies are making great efforts to recruit (and retain) the youngest cohort of workers, the “Generation Y”. These 20-somethings (who are entering the workforce later and staying for a shorter time with each employer) have very different attitudes to work, life and careers than their parents did. In trying to design flexible working lives for them, companies may be accommodating grey hair as well.

In the longer run, though, firms need to talk seriously to employers about their plans for retirement. Many have no demographic profile of their workforce and little idea about how much of it is retiring when. Mr Chillah says many are embarrassed to ask senior employees about taking less pay for less work. In America employers are also often afraid to discuss retirement plans for fear of lawsuits under age-discrimination legislation.

That is a pity. A report last year by Merrill Lynch, a large financial-services firm, argued that “baby-boomers fundamentally will reinvent retirement”. They will, said the report, “cycle” between periods of work and leisure well beyond the age of 65. While many are focused on making extra money, many more say they will do it for the “mental stimulation and challenge”. As the Conference Board, an American association of businessmen, put it last year: “working in retirement, once considered an oxymoron, is the new reality”.

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The ageing brain

Wisdom or senility

Feb 16th 2006
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Understanding how the brain ages could help to slow deterioration

AT WHAT point does an ageing mind become a liability and not an asset? The answer depends on what that mind is asked to do. If the task requires a wealth of knowledge and experience, then the elders have it. If the job needs sharp and fast thinking, youth triumphs.

The inherent differences between people mean that a quick-witted 60-year-old can outperform a slow-minded 25-year-old in tasks at which youth should prevail. But, in general, from the age of 20, you can see a decline in a person's raw mental agility—recalling a list of objects, grouping objects into classes and replacing words with numbers (or vice versa). The speed of reaction slows, too.

However, in the real world, the acquisition of knowledge will obscure the consequences of age-related decline. Performance in many jobs depends on how much you know and how well you know it, both of which increase well into your 60s. Knowledge tends to decline sharply after 65, but that may be the consequence of retirement rather than its cause.

As the brain grows older, it undergoes complex and poorly understood changes—from the biochemical, to the molecular, structural and functional—that lead it to shrink. The brains of those aged 40 and older decrease in volume and weight by 5% every ten years. This shrinkage, though universal, affects people's mental performance in very different ways. Similarly, other changes in the brain—such as the gradual decrease in the supply of oxygen and sugar—leave some peoples' memories unaffected, while others are searching for their glasses.

Much wisdom about the ageing brain has recently been overturned. It was thought, for example, that the loss of neurons led to forgetfulness, culminating in Alzheimer's disease. Researchers now blame the loss of synapses—connections between neurons. It had been thought that new brain cells grew only in young children, and that thereafter every bump on the head or glass of wine led to a loss of intelligence. Recent work has shown that, given intellectual stimulation, new neurons will grow in adults' brains.

No single mechanism adequately explains why brains age. One theory blames oxidative stress, caused by the onslaught of nasty molecules known as free radicals. Another identifies the influx of calcium into the brain cells. Brain ageing could be caused by changes in the way genes are expressed; or dysfunction among the neuron's mitochondria, which provide cells with energy.

Worryingly for some, evidence is emerging that high stress levels contribute to intellectual clumsiness. Chemical transmitters known as glucocorticoids increase blood pressure and damage the hippocampus, the area vital to learning and memory. Recently, young people with high blood pressure have been shown to be just as susceptible to mental decline as elderly people are. Researchers think that raised stress levels help people cope with the emergency but, over days

and weeks, prevent them from learning new information and remembering it. As Jonathan Seckl, of the University of Edinburgh, in Scotland, puts it, “When you are in a fire, you concentrate on where the exit is, not...what the woman next to you is wearing.”

What can be done to promote healthy ageing? You can lower your blood pressure, perhaps through physical exercise, and mental workouts, such as crosswords and sudoku—older people with a history of complex mental activity are less likely to suffer mental decline. But the best protection is to have been born with a big brain.

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Corporate debt

Barbarians at the gates of Europe

Feb 16th 2006
From The Economist print edition

Leveraged buy-outs are growing in Europe, and so are doubtful debts

INEOS is not yet a household name. The British bulk-chemicals producer was formed only eight years ago and the New Forest, its base in southern England, is better known for ponies than for petrochemicals. But when INEOS tapped the debt markets last month to finance a €9 billion ($10.8 billion) takeover of some of BP's chemical assets, it found no shortage of interest. According to one person who worked on what proved to be one of Europe's largest-ever leveraged deals, creditors had within weeks offered €25 billion, almost three times what INEOS needed.

The size, speed and success of INEOS's debt-raising gives a sense of the sea-change taking place in Europe's capital markets. It was evident in the ballroom at London's Four Seasons Hotel on January 11th, when hundreds of hedge-fund executives and other fund managers heard how they could lend to INEOS, one of the world's biggest chemicals companies. A few years ago, that type of credit institution barely existed in Europe, where lending was a clubby affair handled mostly by banks. But the funds have emerged in search of the yields that lending in highly leveraged transactions can command. In INEOS's case, 490 of them expressed an interest in lending.

The sea-change is also reflected in the fancy array of debt instruments that INEOS coaxed from creditors. They were a far cry from the “plain vanilla” syndicated loans it would have expected in an earlier credit cycle. They included three tranches of term loans, some mezzanine-like debt called “second lien”, and ten-year junk bonds, denominated both in euros and in dollars. All were

rated below investment grade, meaning they carry a high risk of default. But each segment was of a record size for Europe, says Malcolm Stewart of Merrill Lynch, an investment bank that co-ordinated the transaction. For once, most of the demand came from creditors in the euro area, rather than Americans. “The European leverage market has clearly matured. It is no longer the little sister of America,” says Mr Stewart.

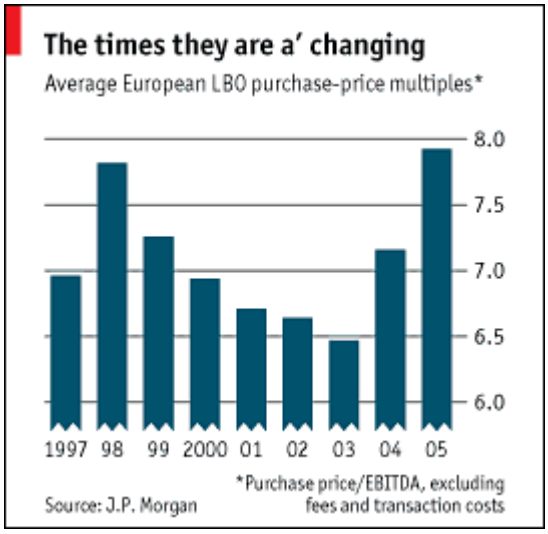
Such maturity suggests that if—and it is a big if—credit conditions remain benign, there are pots of money to be lent to the right borrower. This has sent bankers on a quest for deals even larger than INEOS's. Several believe that within the coming weeks or months there will be a leveraged buy-out in Europe to rival—at least in nominal terms—that of America's RJR Nabisco, the grandfather of them all. It was sold for $25 billion to a buy-out group in 1988, and its story was told in a bestselling book, “Barbarians at the Gate”.

Pile it high

Large corporations are also potential beneficiaries. They could either gear up for acquisitions, or they could raise debt defensively, as Britain's BAA, the world's largest airport operator, may do to fend off a highly leveraged potential bid from Ferrovial, a Spanish conglomerate.

This makes sense as long as interest rates or a downturn do not put borrowers under intolerable strain. Already, some lenders are beginning to worry that they may be in too deep. Data from J.P. Morgan imply that debt taken on in the sub-investment-grade market in Europe to finance a typical leveraged buy-out rose to nearly eight times earnings before interest, tax, depreciation and amortisation in 2005, up from just over seven times in 2004.

According to Standard & Poor's LCD, a leveraged-finance unit of the ratings agency, the volume of such leveraged loans almost doubled last year, to €123 billion, growing at a much faster rate than in America, where there are also signs of strain. Meanwhile, although default rates are low, S&P has detected an increase in the speed with which new European borrowers breached their loan covenants last year, forcing them to negotiate expensive waivers with their creditors.



An area of particular concern to the ratings agencies is the extra debt that borrowers are piling on to their balance sheets. This is either because their private-equity owners want dividends (as at Debenhams, a British department-store chain that found its leveraged loan issue last year was unpopular among institutional investors), or because the company has been “recycled” from another private-equity group. Gala, a British bingo and casino operator, stood out last year for its ability to borrow money repeatedly to pay off its private-equity backers, and to finance the £2.2 billion ($3.8 billion) acquisition of a rival, Coral Eurobet.

The rating agencies say that the deteriorating credit quality of those trying to finance adventurous takeovers could spell trouble. They expect an increase in default rates this year or next, even if the economic conditions for borrowers do not deteriorate much. Bankers are keen not to be left holding a toxic tranche of unsellable debt if the credit cycle turns. “There is a universal consciousness that it is a very aggressive market,” says Richard Howell, a managing director at Lehman Brothers, an investment bank. “People are aware there is a lot of risk in the system.”

The repercussions of a fall in credit quality would be felt far beyond the leveraged-loan market. The corollary of the enhanced liquidity provided to borrowers by hedge funds and other institutions is that they too are highly geared. It is easy to imagine their own lenders getting cold feet if credit conditions turn.

Yet one man's misfortune is another's opportunity. Banks and hedge funds are increasing their expertise in the distressed-debt market, where the most pungent credits will eventually end up. Not all of them will be able to benefit if the leveraged-loan market contracts. But the vultures are out there already sharpening their talons for the day when that happens.

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Mafia money

Out of the rocks

Feb 16th 2006 | PALERMO
From The Economist print edition

Sicilian magistrates hit the jackpot

TAX havens are no longer safe havens for ill-gotten gains. Prosecutors in Palermo revealed recently that they have been able to lay their hands on bank accounts in Monte Carlo holding almost €21m ($25m) suspected to be the earnings of crime. The authorities in the Principality of Monaco had, for the first time, executed a request to sequester funds belonging to defendants in cases involving Sicily's Cosa Nostra.

The money is held with the local subsidiaries of two Swiss banks, in accounts belonging to three family trusts established in Vaduz, the capital of Liechtenstein. They arrived there after a tortuous series of transactions that began about ten years ago in the Banco di Sicilia in Palermo. The beneficiary of two of the trusts is Francesco Zummo, a Sicilian businessman whose trial in Palermo for aiding and abetting Cosa Nostra is expected to end soon. Among the charges that Mr Zummo faces is that of laundering money for Vito Ciancimino, a former mayor of Palermo and a leading *Mafioso* tied to the Corleonese clan. Ciancimino died in 2002 while under house arrest.

Italy's prosecutors are handicapped by a shortage of resources to investigate Mafia crime, but they are helped in the sequestration of assets by the fact that the burden of proof is on defendants, who must show that they acquired their assets legally. However, legislation approved by Silvio Berlusconi's government in recent years has further hindered the prosecutors' efforts. “The fiscal shield introduced in 2001, allowing the anonymous regularisation of illicit assets held abroad, was certainly a step backwards,” says Antonio Ingroia, an anti-Mafia prosecutor involved in the Zummo case.

Tracing the complex flows of funds in cases of money-laundering is often difficult. Only a tiny part of the assets that Mr Zummo laundered has been found, said the prosecutors when they applied for the sequestration. Indeed, the discovery of the bank accounts in Monte Carlo owed something to a lucky tip-off. Even so, breaking through that particular national frontier was an important step forward, says Mr Ingroia, smoothing the way for more action by prosecutors.

Where will Cosa Nostra's bosses turn to next? Fiscal paradises farther afield? Well, maybe not. “San Marino is one of the places that is hard to penetrate,” says Mr Ingroia. The Republic of San Marino is a small enclave in central Italy.

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The PCAOB

A matter of oversight

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From The Economist print edition

An indirect attack on Sarbanes-Oxley

KENNETH STARR, the zealous special prosecutor who made Monica Lewinsky a household name, is on the case again. This time it is less titillating, but may be no less consequential. Mr Starr and a team of legal heavyweights are representing the Free Enterprise Fund, a conservative lobbying group, and Beckstead & Watts, a Nevada-based accounting firm, in a lawsuit filed on February 7th against the Public Company Accounting Oversight Board (PCAOB), America's accounting regulator. They claim that the PCAOB, which was established in 2002 as part of the Sarbanes-Oxley act in the wake of huge accounting scandals at Enron and elsewhere, is unconstitutional. If they are right, a fundamental reconsideration of Sarbanes-Oxley is all but certain.

Central to the lawsuit is the plaintiffs' ability to show that the PCAOB is in effect a federal agency and thus bound by the constitution. This is trickier than it sounds because Congress explicitly established the PCAOB as a not-for-profit, private corporation and “not an agency or establishment of the US government”. The plaintiffs argue that the board's power to create and enforce auditing rules, set its own budget and fund its operations by levying a fee (the plaintiffs call it a “tax”) on all listed companies makes the board governmental in all but name. “The board has all of the attributes of a government agency without any of government's constraints,” says Hans Bader, the legal counsel of the Competitive Enterprise Institute, a think-tank that has joined the plaintiffs.

The lawsuit's charges are twofold. The first is that the PCAOB's wide-ranging powers violate the constitution's separation-of-powers principle. The second is that the PCAOB violates the constitution's “appointments clause” which requires the president to appoint all “senior” government officers. The PCAOB's five-member board is appointed by the Securities and Exchange Commission.

Critics of the lawsuit claim that the PCAOB's powers are adequately circumscribed by the SEC. It must seek the commission's approval for all its big decisions—including its budget, the auditing standards it promulgates, and any disciplinary sanctions it wants to impose on errant audit firms. Moreover, its structure is not unique. Self-regulating organisations (SROs) such as the National Association of Securities Dealers and the New York Stock Exchange have similar investigative, rule-making and enforcement powers, and are also overseen by the SEC. America's accounting-standard setter, the FASB, has rule-making powers and is funded from the same public-company fees that fill the PCAOB's coffers.

Yet Donna Nagy of the University of Cincinnati insists that the PCAOB is unique. SROs were not created by Congress as the PCAOB was. They can levy fees only on the industry they regulate, while the PCAOB can levy fees on all listed companies. Their boards are made up of industry participants (the “self” in “self-regulating”, says Ms Nagy), whereas by law only two of the five members of the PCAOB's board can be accountants.

Whether the PCAOB violates the appointments clause rests on whether its board members are regarded as “senior” or “inferior”, says Erwin Chemerinsky of Duke Law School. Inferior officers of the government can be appointed by the president, the courts or heads of government departments.

The stakes are high. The PCAOB is far from popular with businessmen because of its requirement that all listed companies have an outside auditor attest to the quality of their internal controls—a task that has turned out to be much more expensive than the PCAOB expected. Should the courts find the board to be unconstitutional, business groups will seek to alter the organisation fundamentally—not merely to tinker with the way its board members are appointed. Perhaps more importantly, the Sarbanes-Oxley act lacks a “severability” clause, meaning that the entire statute is affected if one piece of it is found to be unconstitutional.

All this comes at an awkward time for the PCAOB. Its respected first chairman, William McDonough, stepped down late last year, and the SEC has yet to name a permanent replacement. This is disturbing institutional investors who say that now more than ever the PCAOB needs a leader with a strong voice.

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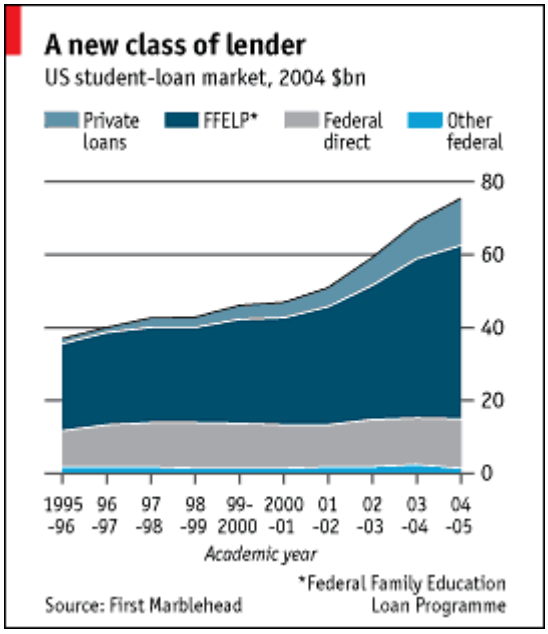
Paying for education

Thanks to the banks

Feb 16th 2006 | NEW YORK
From The Economist print edition

College students learn more about market rates



A GOOD education may be priceless, but in America it is far from cheap—and it is not getting any cheaper. On February 1st Congress narrowly passed the Deficit Reduction Act, which aims to slim America's bulging budget deficit by, among other things, lopping $12.7 billion off the federal student-loan programme. Interest rates on student loans will rise while subsidies fall.

Family incomes, grant aid and federal loans have all failed to keep pace with the growth in the cost of tuition. “The funding gap between what students can afford and what higher education costs has got wider and wider,” says Claire Mezzanotte of Fitch, a ratings agency. Lenders are rushing to bridge the gap with “private” student loans—loans that are free of government subsidies and guarantees.

Virtually non-existent ten years ago, private student loans in the 2004-05 school year amounted to $13.8 billion—a compound annual growth rate of almost 30%—and they are expected to double in the next three years. According to the College Board, an association of schools and colleges, private student loans now make up nearly 22% of the volume of federal student loans, up from a mere 5% in 1994-95.

The growth shows little sign of slowing. Education costs continue to climb while pressure on Congress to pare down the budget deficit means federal aid will, at best, stay at current levels. Meanwhile, the number of students attending colleges and trade schools is expected to soar as the children of post-war baby-boomers continue matriculating.

Private student loans are popular with lenders because they are profitable. Lenders charge market rates for the loans (the rates on federal student loans are capped) before adding up-front fees, which can themselves be around 6-7% of the loan. Sallie Mae, a student-loan company and by far the biggest dispenser of private student loans, disclosed in its most recent report that the average spread on its private student lending was 4.75%, more than three times the 1.31% it made on its federally backed loans.

All of this is good news when lenders are hungry for new areas of growth in the face of a cooling mortgage market. Private student loans, says Matthew Snowling of Friedman, Billings, Ramsey, an investment bank, are probably “the fastest-growing segment of consumer finance—and by far the

most profitable one—at a time when finding asset growth is challenging." Last December J.P. Morgan, which already had a sizeable education-finance unit, snapped up Collegiate Funding Services, a Virginia-based provider of federal and private student loans. Companies from Bank of America to GMAC, the financing arm of General Motors, have jumped in. Other consumer-finance companies, such as Capital One, are whispered to be eyeing the market.

The road ahead will not be free of bumps. Jack Kopnisky, the chief executive of First Marblehead, a provider of services for companies offering private student loans, likens the business to credit cards. They too saw an influx of competition when margins were fat, only for them to be consolidated into a handful of dominant lenders during the 1990s. "Private student loans, too," says Mr Kopnisky, "are a scale business. Smaller lenders will have a tough time." That may be why Washington Mutual decided to get out of the student-loan business earlier this year.

The market is, after all, relatively new and untested. Students are high-risk borrowers. They have short credit histories and big piles of debt. The College Board estimates that at four-year public colleges, students graduate with (on average) $15,500 of debt; those at private colleges leave school $19,400 in the red. Who knows how they will fare when interest rates rise, or if the economy slows?

The question is all the more urgent because the growth in private student loans has come through a shift from lending to the top tier of students, often graduate students at elite schools, to a wider and riskier group at community colleges, trade schools and the like. Moving to the mass market is how the credit-card business exploded in volume. Private lenders to students need to work out how to avoid imploding in harder times.

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Norinchukin Bank

In search of a new furrow

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Agricultural reform poses a challenge for Japan's agricultural bank

NORINCHUKIN BANK has two faces. One is that of a sophisticated international financial institution with assets of about ¥62 trillion ($525 billion), making it Japan's fourth-largest commercial bank. The other reflects the bank's roots as a small quasi-public institution set up in 1923 to manage the deposits of millions of farmers, fishermen and forest workers.

Both faces have in recent years been smiling. Considered by many to have the best fund management in Japan, the bank used those skills to avoid the worst effects of the country's financial crisis in the 1990s. While other big banks had to pay a so-called “Japan premium” of more than one percentage point to borrow on international markets, Norinchukin's branches abroad, notably those in London and New York, used its superior creditworthiness to act as a sort of commercial lender of last resort, funnelling foreign currency to other Japanese banks.

At times it has played a similar role at home, when the Bank of Japan, the central bank, was unwilling to feed the markets with more money. “We used to be called the central bank of Otemachi (Tokyo's then financial district),” reminisces Yoshio Kono, a senior managing director of the bank. At home, its fund-management skills have enabled it to offer its small rural depositors an annual interest rate of around 0.8% which, low as it sounds, is about 25 times the rate offered by other commercial banks in deflationary Japan.

Now, however, the bank is faced with its biggest challenge for some time. Japan is reforming its agricultural system, which requires small-lot farmers—Norinchukin's main customers—to pool their land and create bigger settlements if they are to qualify for their all-important subsidies. Other banks have seen an opportunity in this and have started to lend to the agri-businesses that are emerging from the consolidation, thereby creating new competition for Norinchukin. The bank is aware it needs to find new strategies to enable it to profit from the reforms, which it itself supported.

Norinchukin pools and invests funds for a complicated maze of institutions that support agriculture. It supervises the activities of a two-tiered co-operative banking system which, in the year to March 2005, collected roughly ¥86 trillion in deposits. Until recently, these institutions faced little or no competition. Other banks considered agricultural lending a risky, low-profit business. But now they seem to have changed their mind.

The role of the co-operative banks ranges from deposit-taking to helping with sales and distribution of agricultural goods, and even, on occasion, making funeral arrangements for its members. Stretching right across the country, it is the biggest branch network of any commercial bank in Japan, second only to that of the soon-to-be-privatised Japan Post (the world's largest bank on some definitions).

So how did a modest rural-flavoured bank end up as what Koyo Ozeki, an analyst at PIMCO Japan, describes as “a role model for Japanese banks”? A mix of long-term thinking, good timing and some luck is the answer. During the bubble economy of the 1980s, when other banks were minting money by making commercial loans backed by property, Norinchukin, then still relatively small, could not keep up. Though it lent to paper and pulp firms, supermarkets and other agriculture-related businesses, the bank put most of its money in Japanese government bonds, which turned out to be a very profitable investment when yields fell. When the bubble eventually burst in the 1990s, the other banks were left with bad loans and worthless collateral.

Norinchukin now seems to be following a contrary strategy yet again. While others start moving into agricultural lending, it is shifting its focus. It is taking more credit risk these days than interest-rate risk by, for example, investing about ¥12 trillion in American asset-backed securities—double its investment in US Treasuries. It is also abandoning its strategy of doing things all on its own. It has linked with Mizuho Securities and has taken a stake in MUFJ, Japan's largest commercial bank, largely to improve and broaden its credit-card business. Like a wise farmer, it is changing the course of its plough as the field becomes more crowded.

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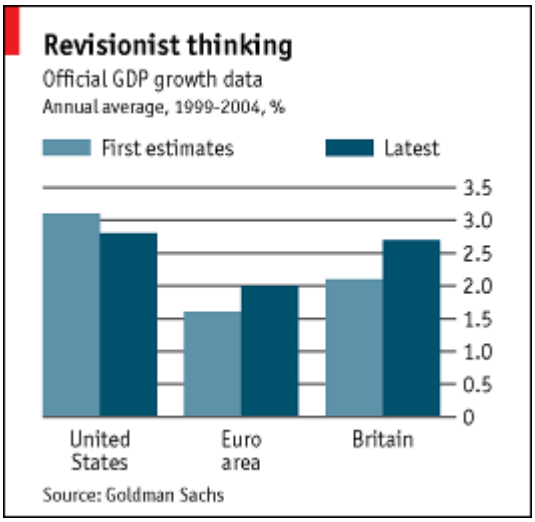
GDP growth

A numbers racket

Feb 16th 2006
From The Economist print edition

Europe's statisticians are too gloomy



THE economy of the euro area continues to disappoint. Figures out this week show that GDP growth slowed in the fourth quarter to an annual rate of only 1.2%, down from 2.6% in the previous quarter. Yet history suggests that this number will later be revised upwards. Since the start of EMU in 1999, revisions to GDP growth have almost always been upwards. In contrast, revisions in America have tended to be downwards. The initial figures which grab newspaper headlines therefore exaggerate Europe's economic underperformance.

Kevin Daly, an economist at Goldman Sachs, calculates that, based on the GDP-growth figures first published in each quarter, the euro area would have grown by an annual average of only 1.6% in the six years to 2004. Yet the latest figures put the growth rate at 2.0%. On the same basis, Britain's growth rate has been revised up by even more, from 2.1% to 2.7%. In contrast, the first published figures gave America an average growth rate of 3.1%; but that has now been shaved down to 2.8%. The revisions have cut the reported gap between growth rates in America and the euro area (see chart) in half. As a result, the euro area's GDP per head has in fact grown at the same pace as America's.

Discounting the obvious explanation that American statisticians are born optimists, it is unclear what lies behind the consistent direction of these revisions. Initial GDP estimates are based on partial information; missing data has to be based on the recent past. Thus in an economy where the growth rate is starting to pick up due to structural changes, first estimates will tend to understate growth. Perhaps the euro area's persistent understatement reflects the early impact of its structural reforms.

Europe could rejoice in further upward revisions to growth if its governments were to adopt American statistical practices. Price deflators there take more account of improvements in the quality of goods, such as computers, and thus a given rise in nominal spending implies faster growth in real terms. By using higher inflation rates, the euro area understates its growth relative to America's. In addition, American statisticians consider firms' spending on software that is written in-house to be investment, while in the euro area it is often counted as an expense and so is excluded from final output. The surge in software spending has therefore inflated America's relative growth.

On past experience, Europe's statisticians should add half a percentage point to their first guesses of GDP growth. By also switching to American practices, they could boost growth even further.

Instead, their cautious ways are making Europe's economies look more dismal than they are, and gloomy headlines are discouraging consumers from spending. Perhaps Europe should outsource the compilation of its statistics to America, and then watch the boom.

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Merrill Lynch

BlackRock and a hard place

Feb 16th 2006 | NEW YORK
From The Economist print edition

America's biggest broker outsources its investment management

AS VEXING problems go, Merrill Lynch has got rid of one that other asset managers would love to have. Its mutual-fund business was highly profitable and the performance of its funds had rebounded after a costly infatuation with the stockmarket bubble in the late 1990s. In general, the firm's better returns were leading to better sales.

Nevertheless, Merrill's top executives came to the conclusion that the prospects for distributing its proprietary products would always be limited. So the firm decided that it needs to look elsewhere for growth. On February 15th it handed its $544 billion fund operation to BlackRock, a firm that already managed $453 billion. In return, Merrill receives a stake of just under half of the combined firm.

For BlackRock, the benefits are obvious. It picks up fee-paying assets at a fraction of the price that other firms (including Merrill) paid for them only a few years ago. And it is able to finance the $9.8 billion transaction with its own stock, which trades at more than twice the earnings multiple of Merrill's. Operationally, BlackRock will retain its independence while (presumably) gaining the kind of privileged access to Merrill's army of brokers that will be the envy of its competitors.

As for Merrill, it will gain a large economic interest in a fast-growing asset-management firm that can do what Merrill could not—namely, distribute funds through firms other than Merrill Lynch. Although the thundering herd is not saying as much, the deal also removes a blatant conflict of interest from its brokers—though Merrill's brokers were more willing than most to sell others' funds.

This conflict was the biggest single factor behind the recent exchange of asset management for brokers by Citigroup and Legg Mason, and it also lay behind an unsuccessful attempt by Morgan Stanley earlier this year to purchase BlackRock. For Merrill, however, the separation will not be clean. The firm is to retain a large economic interest in BlackRock, and its chief executive will go on the fund manager's board—factors that could cause regulators to take a second look at the relationship in the future. It might also dissuade other brokerage firms from providing the alternative distribution that was Merrill's primary reason for doing the deal.

The biggest question, though, has less to do with strategy and more to do with the peculiar dynamics of the investment-management business. BlackRock has thrived in recent years for two reasons—it has had a particular strength in bonds during a bull market for such instruments, and the bond side of investment management seems to benefit from scale.

This has not been broadly true of equities, Merrill's forte. Most of the successful equity funds rated in recent years by Morningstar, a tracking service, are either relatively small or are managed by relatively small independent operations. Scale in equity asset management may benefit the asset

manager who is collecting fees, but it does not seem to provide a corresponding benefit for his clients.

Based on its recent form, Merrill's fund business seems to have been a gem. According to a research report issued on February 13th by Morgan Stanley, it recorded the highest return on equity of any segment of the firm. It fit with Merrill's other operations, was a relatively stable source of income, and probably would have begun to grow again as word of its improved performance spread around. In pursuing still more growth elsewhere, has Merrill misunderstood the value of what it already had?

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Economics focus

More than a notional improvement

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State pension systems that mimic private accounts

Get article background

IN THE less-than-cool world of public pensions, new trends come along infrequently. For much of the past 25 years, most discussion of state pensions has been about funding: getting today's workers to save now in order to pay for their own retirement later. Systems in many countries have moved from pay-as-you-go financing, in which today's workers pay for today's pensions, towards individual accounts in which workers accumulate their own cash. With Chile leading the way in 1981, this system has proved especially popular in Latin America. Workers in a dozen countries there now make mandatory contributions to their personal nest eggs.

In the past decade or so, however, several European countries, led by Latvia and Sweden, have been trying out a new style of pension. This new approach, the subject of a weighty book just published by the World Bank*, is based on “notional” (or non-financial) defined contributions (NDCs) by workers. It sticks with pay-as-you-go financing, but mimics a funded plan in determining what benefits pensioners receive.

The details vary from country to country, but there is a common underlying model. As with normal funded defined-contribution plans, each worker has an individual account. However, workers do not actually put any money into their own pot. The amounts in their accounts are purely “notional”. Their NDCs earn interest at a rate broadly equivalent to the growth of the payroll-tax base. When employees retire, their notional capital is converted into regular pension annuities in a similar way to funded plans—except that the annuities are paid out of taxes on tomorrow's workers, not their own retirement savings.

This reform offers a way round a difficult problem. As the costs of traditional pay-as-you-go systems rise, so do the taxes needed to pay for them. But more onerous taxes on labour are likely to discourage work and thus constrict the tax base from which the pensions are supposed to be paid. Notional accounts set an automatic limit to the claims of tomorrow's pensioners on tomorrow's workers.

They do this by insulating public pensions from two demographic trends that are weighing on traditional systems. First, the value of notional accounts responds automatically to rising longevity: the annuities that pensioners receive depend on their life expectancy at retirement. Second, the accounts vary with the birth rate: a low rate will eventually feed through to the payroll-tax base through stagnant or falling employment. This will hold down returns on NDCs and hence pensions. Rises in productivity growth, however, will work in the other direction.

In effect, notional accounts force the adjustment caused by demographic change on to benefits

rather than contributions. The obvious drawback is that pensions may turn out to be inadequate. The answer to that is to work longer: indeed, notional accounts automatically encourage people to retire later as populations age. Subject to a minimum age, individuals can decide for themselves whether they want to stop work earlier with a lower pension, or later with more. Indeed, NDCs should spur people of all ages to work, since their pensions directly reflect their contributions. Unlike traditional benefits, which are only loosely linked to lifetime contributions, the annuities from notional accounts are actuarially fair: you get out what you put in.

Reality check

It would be wrong to think that NDCs, despite their merits, can solve all the problems of public-pension systems at a stroke. One worry is that, in practice, many workers may still choose to retire at the earliest possible age, requiring further support from the state to keep body and soul together. Another is that notional accounts, being pay-as-you-go schemes, remain vulnerable to political risk. With numbers on their side, future generations of pensioners may have the political clout to tear up the system and demand higher pensions—ie, that the workers of the time pay more tax.

Although notional accounts are actuarially fair, some might think them socially unfair, because they strip out redistribution among pensioners: the better off pay in more (and so receive more) than the poor. The need to alleviate poverty among the old still has to be met. But that must be done through general tax revenues, by crediting the accounts of poorer workers or by topping up pensions for those who end up with too little in their notional accounts. This in turn, however, may blunt the incentive to work.

In practice, NDC reforms are less straightforward than they sound in theory. Notoriously, Italy is phasing in its changes over an absurdly long period, stretching to the 2030s. Even in Sweden, often held up as an example, the new model is not pristine. For example, the interest rate earned by the notional accounts is set by the growth of average wages, not that of the total pay bill, which means that it is unaffected by fertility-induced falls in employment. The reform relies instead on a reserve buffer fund, inherited from the previous system, and an “emergency brake” to reduce returns if necessary.

Notional accounts are not likely to work well everywhere. They will be at their most useful in improving continental Europe's earnings-related pension systems; they are less well suited to systems that provide mainly flat-rate benefits—which is one reason why they have scarcely featured in the lively debate over public pensions in Britain. They also need to be combined with steps to encourage more funded saving for old age and to ensure support for poorer pensioners. The new fashion might not suit everybody. But it is catching on.

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* “Pension Reform: Issues and Prospects for Non-Financial Defined Contribution (NDC) Schemes”, edited by Robert Holzmann and Edward Palmer.

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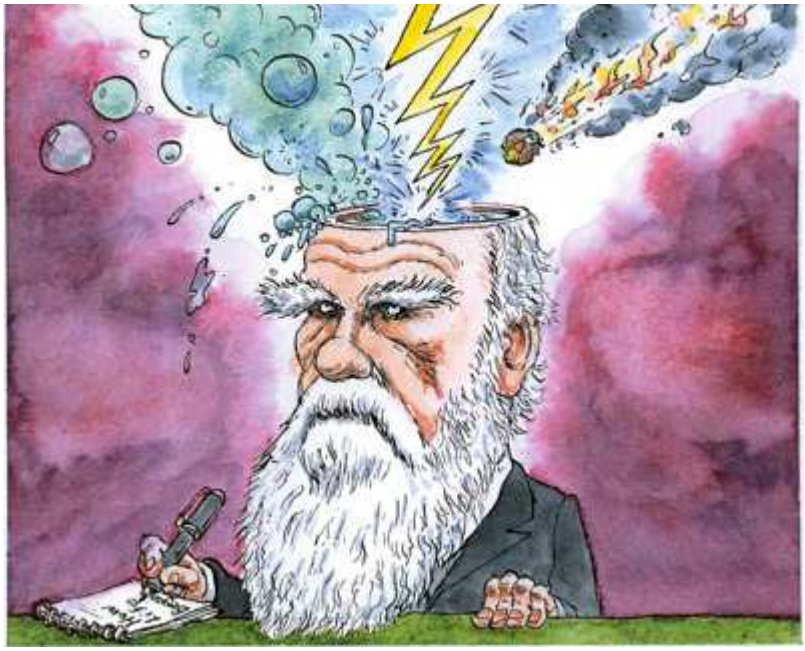
The origin of life

In the beginning...

Feb 16th 2006
From The Economist print edition

How life on Earth got going is still mysterious, but not for want of ideas



NEVER make forecasts, especially about the future. Samuel Goldwyn's wise advice is well illustrated by a pair of scientific papers published in 1953. Both were thought by their authors to be milestones on the path to the secret of life, but only one has so far amounted to much, and it was not the one that caught the public imagination at the time.

James Watson and Francis Crick, who wrote “A structure for deoxyribose nucleic acid”, have become as famous as rock stars for asking how life works and thereby starting a line of inquiry that led to the Human Genome Project. Stanley Miller, by contrast, though lauded by his peers, languishes in obscurity as far as the wider world is concerned. Yet when it appeared, “Production of amino acids under possible primitive Earth conditions” was expected to begin a scientific process that would solve a problem in some ways more profound than how life works at the moment—namely how it got going in the first place on the surface of a sterile rock 150m km from a small, unregarded yellow star.

Dr Miller was the first to address this question experimentally. Inspired by one of Charles Darwin's ideas, that the ingredients of life might have formed by chemical reactions in a “warm, little pond”, he mixed the gases then thought to have formed the atmosphere of the primitive Earth—methane, ammonia and hydrogen—in a flask half-full of boiling water, and passed electric sparks,

mimicking lightning, through them for several days to see what would happen. What happened, as the name of the paper suggests, was amino acids, the building blocks of proteins. The origin of life then seemed within grasp. But it has eluded researchers ever since. They are still looking, though, and this week several of them met at the Royal Society, in London, to review progress.

The origin of pieces

The origin question is really three sub-questions. One is, where did the raw materials for life come from? That is what Dr Miller was asking. The second is, how did those raw materials spontaneously assemble themselves into the first object to which the term “alive” might reasonably be applied? The third is, how, having once come into existence, did it survive conditions in the early solar system?

The first question was addressed by Patrick Thaddeus, of the Harvard-Smithsonian Centre for Astrophysics, and Max Bernstein, who works at the Ames laboratory, in California, part of America's space agency, NASA. As Dr Bernstein succinctly put it, the chemical raw materials for life, in the form of simple compounds that could then be assembled into more complex biomolecules, could come from above, below or beyond.

The “above” theory—ie, that the raw materials were formed in the atmosphere, and which Dr Miller's original experiment was intended to investigate—has fallen out of favour. That is because it depends on the atmosphere being composed of chemicals rich in hydrogen, which methane and ammonia are. Dr Miller thought this was likely because it was known in the 1950s that Jupiter's atmosphere contains these gases. Modern thinking, though, favours an early terrestrial atmosphere rich in carbon dioxide, as is found on Venus and Mars. Such an atmosphere is no good for making amino acids.

The “beyond” theory is that the raw materials were formed in space, and came to Earth either while it was being formed, or in the form of a later chemical “top up” from comets and interstellar dust. Dr Thaddeus waxed eloquent in support of this, pointing out that radio astronomy has now identified 135 different molecules in outer space (each gives out a specific pattern of radio waves when its atoms are shaken, allowing it to be identified from afar). Moreover, these molecules tend to be concentrated in the sorts of nebulae in which stars and their associated planetary systems are known to form.

Sadly, though, few of the 135 chemicals found so far resemble any important building block of life. That leaves the “below” hypothesis, which is the one Dr Bernstein favours. His theory is that the crucial raw materials were built up in hydrothermal vents like those found today in the deep ocean. These do, indeed, leak chemicals of the sort that Dr Miller used, though they provide reaction-encouraging energy in the form of heat alone, with no electricity. Nevertheless, modern vents do seem to produce not only simple amino acids but also short amino-acid chains—in other words, tiny proteins.

Going from the raw materials to the finished product, though, is a big step. In this case, the definition of “finished product” is something that is recognisably the ancestor of life today. Such an ancestor would store information in DNA, or a molecule similar to it, that was able to replicate, and thus breed. It would also use that information to make proteins. And it would probably do all this inside a membrane made of fatty molecules. In other words, it would be a living cell.

Worlds without end

The favoured theory at the moment is that the first genetic material was not DNA, but its cousin RNA. In the wake of the Watson and Crick paper, a series of experiments showed that RNA acts as a messenger for the DNA, and as a fetcher and carrier of amino acids for the factories in which proteins are made. Until recently, therefore, it was seen as a rather humble substance—a molecular hewer of wood and drawer of water for the presiding DNA genius in the cell nucleus. But it is also an important component of the protein factories themselves. Indeed, these factories are known as ribosomes because of it. And the past few years have seen the discovery of more and more roles for RNA, including some in which it acts as a chemical catalyst—a job that had previously been thought to be restricted to protein-based enzymes.

This ubiquity, combined with the fact that RNA can catalyse chemical reactions, has led to the idea of an RNA world that preceded the modern DNA/protein world—and it seems very likely that RNA did, indeed, precede DNA, if only because it is the more chemically stable of the two. But that does not explain either where the RNA came from in the first place, or how the RNA/protein interdependence came about—a question known as the “breakout” problem.

There are several ideas for how large molecules such as RNA (and also early proteins) might have been generated out of the chemical raw materials that came from above or below or beyond. Two of the most persistent, though, are that clay was the catalyst, and that iron and nickel sulphides were the catalysts.

The clay theory is widely held, but needs tightening up. James Ferris of Rensselaer Polytechnic Institute, in New York state, explained to the meeting that his research on a type of clay called montmorillonite showed that it catalysed the formation of RNA molecules up to 50 units long. (A unit, in this context, is one of the four chemical bases that make up the alphabet of the genetic code, attached to some sugar and phosphate.) He also showed that the process was selective, with the same relatively small set of RNA molecules emerging every time. That is important, because if all possible permutations of the four bases were equally likely, none of them would ever become common enough for anything interesting to happen.

The iron/nickel/sulphur model is the brainchild of Günter Wächtershauser of Munich University. It, too, relies on catalysis, though in this case the best-tested chemical pathways generate amino acids and proteins, rather than RNA. Unfortunately, neither the clay route nor the iron/nickel route answers the breakout question. But a third, and novel, model described at the meeting might.

This was devised by Trevor Dale of Cardiff University, in Wales. He has come up with a way that proteins and RNA might catalyse each other's production.

The protein involved would crystallise in the form of long, and easily formed, fibres called amyloid. (This is the form that proteins take in brain diseases such as Alzheimer's and Creutzfeldt-Jakob.) The amyloid fibres would then act as surfaces on which RNA molecules could grow.

Crucially, RNA forming on a fibre this way would grow as double strands, like the DNA in a cell nucleus, rather than as the single strands in which the molecule normally comes. When the strands separated, each would act as a template for a new double-stranded molecule, just as happens when a DNA molecule divides.

The protein, meanwhile, would grow because the protruding end of the RNA would act as a catalyst, adding amino acids on to the end of the amyloid fibre. When the fibre grew too long to be stable, it would break in two. Thus both RNA and protein would replicate.

Such a system, Dr Dale thinks, could be the ancestor of the ribosome and, if wrapped in a fatty membrane, of the cell. And, as David Deamer, of the University of California, Santa Cruz, told the meeting, such membranes will assemble spontaneously in certain conditions.

Dr Dale's idea is certainly chemically plausible, though it has yet to be tested in a laboratory. But he is conducting tests at the moment, and hopes to have the results later this year.

The third sub-question—of how life managed to get going at all in the hostile arena of the early Earth, was neatly addressed by Charles Cockell, of Britain's Open University. The perceived problem is that for the first 600m years of its existence, the planet was being bombarded by bits of debris left over from the formation of the solar system. Yet chemical signatures in the few rocks left over from this period suggest that life—presumably in the form of bacteria—was well established by the end of it. How, then, did that life survive the constant rain of asteroids?

Beginnings are such delicate times

Dr Cockell turned the question neatly on its head by showing that impact craters are ideal places for life to get going. The heat generated by an impact produces local hydrothermal springs. These start off hot, thus favouring the formation of amino acids and RNA-forming bases. They then cool over the centuries to the point where these individual molecules can get together in more complex chains. And they also have lots of microscopic nooks and crannies with space for micro-organisms to breed, and interesting chemicals in them for bugs to feed on.

The biggest irony of all, then, might be that the conditions once thought a near-insuperable obstacle to the emergence of life on Earth may actually have enabled it to come about.

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Climate change (II)

Greenland's less-icy mountains

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Evidence that sea levels will rise more rapidly than previously thought

THE biggest unknown factor in making predictions of rising sea levels in response to global warming is the role played by the massive ice sheets that cover Antarctica and Greenland. If parts of these were to melt, the sea level would rise far more rapidly than in the past (when much of the rise has been because water expands as it warms). Until recently, it was thought that any melting going on in the ice caps was fairly gentle. But four years ago a small Antarctic ice shelf suddenly disintegrated, leading many people to think again. This week brings further pause for thought, with alarming news from the other end of the world.

In the past, researchers have used data from planes that fly criss-crossing paths over Greenland to assess the extent of its ice sheets. It is a mammoth undertaking. The Greenland ice sheets cover 1.7m square km—an area only a little smaller than Mexico—and the surface of the ice rises to an altitude of 3km. Not surprisingly, the flights leave some areas unmonitored, and so computer models have been used to fill in the blanks and to estimate the role played by these patches. The conclusion, combining data and models, was that the Greenland ice sheet is relatively stable in the centre, but thinning slowly at the edges.

That conclusion, however, has been questioned by Eric Rignot of the California Institute of Technology and Pannir Kanagaratnam of the University of Kansas. They used satellite data concentrating on Greenland's coastline to examine how fast the thinning is happening, and they have found that the flow-speed of 12 glaciers, which together account for about half the discharge of water from the ice sheet, is increasing—and fast.

According to their calculations, published in this week's *Science* and to be presented in more detail on February 18th at a meeting of the American Association for the Advancement of Science, *Science*'s publisher, the speed at which the glaciers flow has doubled to 12km a year. As a result, the volume of ice falling into the sea from Greenland has also doubled over the past decade.

That is worrying enough. But Dr Rignot and Dr Kanagaratnam also found that the Greenland ice sheet experienced a greater area of surface melting in 2002 and 2005 than at any previous time since records began in 1979. Most of this has been in the south of the island, which is where the accelerating glaciers lie. Water flowing from the surface could ease the passage of the glaciers into the sea. Taking both factors into account, the contribution made by the Greenland ice sheet to the rise in global sea levels has increased from 0.23mm a year in 1996 to 0.57mm in 2005.

On top of this, since glacial ice contains no salt, the water formed when it melts is fresh. Such an increased flow of fresh water from Greenland could, according to the best available models of ocean circulation, change the way that currents flow in the North Atlantic, to the detriment of the Gulf Stream, the current that keeps north-west Europe warmer than its latitude suggests it should be. In the context of a report late last year that the Gulf Stream may, indeed, be weakening, the

news from Greenland is doubly disturbing.

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Climate change (I)

Full to bursting

Feb 16th 2006
From The Economist print edition

Rising levels of carbon dioxide will dump even more water into the oceans

Get article background

THE lungs of the planet, namely green-leafed plants that breathe in carbon dioxide and breathe out oxygen, also put water vapour into the atmosphere. Just as people lose water through breathing (think of the misted mirror used to check for vital signs), so, too, do plants. The question is, what effect will rising concentrations of carbon dioxide have on this? The answer, published in this week's *Nature* by Nicola Gedney of Britain's Meteorological Office and her colleagues, would appear to be, less water in the atmosphere and more in the oceans.

Measurements of the volume of water that rivers return to the oceans show that, around the world, rivers have become fuller over the past century. In theory, there are many reasons why this could be so, but some have already been discounted. Research has established, for example, that it is not, overall, raining—or snowing, hailing or sleeting—any more than it used to. But there are other possibilities. One concerns changes in land use, such as deforestation and urbanisation. The soil in rural areas soaks up the rain and trees breathe it back into the atmosphere, whereas the concrete in urban areas transfers rainwater into drains and hence into rivers. Another possibility is “solar dimming”, in which aerosol particles create a hazy atmosphere that holds less water. And then there is the direct effect of carbon dioxide on plant transpiration.

Dr Gedney used a statistical technique called “optimal fingerprinting” or “detection and attribution” to identify which of these four factors matter. Her team carried out five simulations of river flow in the 20th century. In the first of these they allowed all four explanations to vary: rainfall, haze, atmospheric carbon dioxide and land use. They then held one of them constant in each of the next four simulations. By comparing the outcome of each of these with the first simulation, the team gained a sense of its part in the overall picture. So, for example, they inferred the role of land use by deducting the simulation in which it was fixed from the simulation in which it varied.

As with any statistical analysis, the results are only as good as the model, the experimental design and the data. Dr Gedney and her colleagues acknowledge that their model does not fully take into account the use of water to irrigate crops—particularly important in Asia and Europe—nor the question of urban growth. They argue, however, that these aspects, taken together, would remove water from rivers, which makes their conclusion all the more striking. And it is this: fuller rivers cannot be explained by more rainfall or haze or changes in land use, but they can be explained by higher concentrations of atmospheric carbon dioxide.

The mechanism is straightforward. A plant breathes through small holes, called stomata, found in its leaves. Plants take in carbon dioxide, and when the atmosphere is relatively rich in this gas, less effort is needed. The stomata stay closed for longer, and less water is lost to the atmosphere. This means that the plant doesn't need to draw as much moisture from the soil. The unused water flows into rivers.

Optimal fingerprinting had been used before to put climate trends down to both natural and manmade causes. Recent rises in surface temperature have been pinned on rising levels of greenhouse gases, particularly carbon dioxide. However, Dr Gedney's work is the first to identify a direct effect of that gas on ecosystems.

The finding is a mixed bag. On the one hand, fuller rivers threaten more flooding. This week, hundreds of families were forced from their homes in Thailand, where several cities are more than one metre under water. More alarmingly, if rivers dump more water into oceans, then rising sea levels (see article) will rise more rapidly still. Such changes would be felt especially in low-lying, populous and poor countries such as Bangladesh.

On the other hand, access to fresh water represents a blessing, if rivers can be safely controlled. In 2000 the World Health Organisation estimated that, of the world's then 6 billion people, at least 1.1 billion were without safe drinking water and 2.4 billion had no sanitation. If rising concentrations of carbon dioxide mean that plants consume rather less water, leaving more for humans, that might not be such a bad thing after all.

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Gothic horror

Stuff of dreams

Feb 16th 2006 | CORK AND LONDON
From The Economist print edition

Two exhibitions show how a pair of 18th-century painters, James Barry and Henry Fuseli, inspired the modern visual romance with the gothic

THIS spring the bad boys of British art are making a comeback. Not Damien Hirst and his friends, but the original *enfants terribles*—Henry Fuseli (1741-1825) and James Barry (1741-1806)—who aimed, above all, to depict extremes of passion and terror in what they called the new art of the Sublime.

Barry and Fuseli are hardly household names; indeed since Victorian times they have been virtually ignored. But in the late 18th century, Fuseli, and for a short time Barry also, were prominent members of the young Royal Academy of Arts (RA) and influential professors of painting there. Barry's fall from grace was the most dramatic, but there is much to admire in this irascible Irish artist who, like Fuseli, once taught William Blake. Barry's prolific historical paintings demonstrate his ambition to rival the painters of antiquity and the Renaissance and to practise what the then president of the RA, Sir Joshua Reynolds, always preached—that history painting was the noblest form of art. But Barry found it hard to be bound by rules, and he turned history and myth into a series of tableaux that were at once oddly expressionistic and deeply personal.

His melodramatic “King Lear Weeping over the Body of Cordelia” and his sexually charged “Jupiter and Juno on Mount Ida”, now both part of a retrospective of the artist's work in Cork, proved too

full of feeling for a British audience raised on portraits and landscape paintings. His only loyal patron was Edmund Burke, who had coined a theory of the Sublime.

Barry felt he was a persecuted soul, and he painted himself as various ill-fated characters, most bizarrely Philoctetes, the sailor whom Odysseus abandoned on the island of Lemnos because he smelled so bad. As if that weren't enough, Barry also incited his RA students to revolt and then allegedly accused Reynolds of financial impropriety. When he became too unbearable, Barry became the first artist to be expelled by the academy.

Barry knew Fuseli, and he makes a minor appearance in “Gothic Nightmares: Fuseli, Blake and the Romantic Imagination”, the brainchild of an engaging British polymath, Sir Christopher Frayling, who heads the Arts Council of England and the Royal College of Art. Sir Christopher has long been fascinated by the horror genre—he once presented a popular television programme on the topic—and his favourite painting is Fuseli's “The Nightmare” (pictured above), an unsettling image of a sleeping maiden, with an incubus perched on her stomach and a ghoulish horse peering through a curtain.

Sir Christopher sees this painting, together with Fuseli's scenes from Milton and Shakespeare, as part of a search for national myths in the late 18th century. Indeed, his interpretation illuminates an Enlightenment world that hovered between reason and bigotry, and where a quasi-scientific interest in the occult and the emerging genre of the novel fed a public that was hungry for “tales of wonder”.

Unlike Barry, Fuseli—a former preacher who was forced to leave his native Zurich—looked rationally at the London art scene. He saw that the only way to compete for “wall power” at the all-important annual exhibition of the RA was to carve out his own niche, the more eye-catching and esoteric the better. In 1782 Fuseli exhibited “The Nightmare” for the first time, drawing record crowds of up to 3,000 people a day. Perplexed critics asked what the painting was about. In an age when art was supposed to depict an actual person or event, it came as a shock that this was a painting not of a nightmare, but of the nightmare as a generalised experience.

Interestingly, it was not until 1793 that anyone suggested publicly that the painting of a scantily clad woman stretched out on a bed might be about sex. In a post-Freud world, it is impossible to look at “The Nightmare” and see anything else. There is a soft-porn perversity about many of Fuseli's muscular super-heroes and nubile nymphs, particularly his Titania from “A Midsummer Night's Dream”. The erotic drawings and prints by him and his pupil Theodor von Holst are so explicit that the Tate has hung a veil between them and Fuseli's popular fairy paintings nearby, which are a favourite with children.

Unsurprisingly, Fuseli's work was vilified by the Victorians, and he came back into favour only when the Surrealists—enthralled by his weird mix of deviance, death and dreams—claimed him as a hero. Today, the artist who bred his own moths in order to depict them accurately in his fairy paintings hangs in the same gallery as those other attention-seekers, Mr Hirst and Tracey Emin; it is almost as if he were their long-lost ancestor.

While Fuseli's rehabilitation is admirable, the Tate's obsession with inclusiveness dilutes Sir Christopher's ideas. Viewers are overloaded with mawkish pictures that the curators call “Gothic gloomth”, borrowing a phrase from Horace Walpole. Instead of rising to Sir Christopher's wide-ranging themes, which link Fuseli and Blake with other great European painters, including Goya and Caspar David Friedrich, the Tate has taken a parochial view, showing virtually every mediocre British artist who ever dabbled in gothic fantasy. Thankfully James Gillray is also there, and his biting caricatures lift the spirits.

The last room is one of the best. Here Sir Christopher has added his cross-cultural hallmark: a

series of horror film clips that invoke Fuseli's “The Nightmare” as the ultimate shock-horror icon. And at the exit, Angela Carter's words, “We live in gothic times”, are emblazoned on the wall. The spirit of Barry and Fuseli lives on.

“James Barry: The Great Historical Painter” is at the Crawford Municipal Art Gallery, Cork, until March 4th.

“Gothic Nightmares: Fuseli, Blake and the Romantic Imagination” is at Tate Britain, London, until May 1st.

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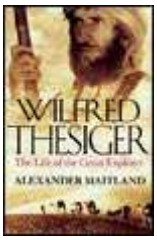
Sir Wilfred Thesiger

Travelling with baggage

Feb 16th 2006
From The Economist print edition

FEW modern travel writers excite more hostility and awe than Sir Wilfred Thesiger, who died in 2003. Despising the “drab uniformity of the modern world”, Sir Wilfred slogged across Africa and Asia, especially Arabia, on animals and on foot, immersing himself in tribal societies. He delighted in killing—lions in Sudan in the years before the second world war, Germans and Italians during it. He disliked “soft” living and “intrusive” women and revered murderous savages, to whom he gave guns. He thought educating the working classes a waste of good servants. He kicked his dog. His journeys were more notable as feats of masochistic endurance than as exploration. Yet his first two books, “Arabian Sands”, about his crossing of the Empty Quarter, and “The Marsh Arabs”, about southern Iraq, have a terse brilliance about them. As records of ancient cultures on the cusp of oblivion, they are unrivalled.

Wilfred Thesiger: The Life of the Great Explorer
By Alexander Maitland



HarperPress; 528 pages; £25

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Sir Wilfred's critics invariably sing the same chorus. They accuse him of hypocrisy, noting that his part-time primitive lifestyle required a private income and good connections to obtain travel permits. They argue that he deluded himself about the motives of his adored tribal companions. In Kenya, where he lived for two decades towards the end of his life, his Samburu “sons” are calculated to have fleeced him of at least $1m. Homosexuality, latent or otherwise, explains him, they conclude, pointing to the photographs he took of beautiful youths.

This may all be true, but it does not diminish his achievements. Moreover, he admits as much himself in his autobiography and elsewhere. In 1938, before his main travels, for example, Sir Wilfred wrote of his efforts to adopt foreign ways: “I don't delude myself that I succeed but I get my interest and pleasure trying.”

In this authorised biography, Alexander Maitland adds a little colour to the picture, but no important details. He describes the beatings and sexual abuse the explorer suffered at his first boarding school. Quoting from Sir Wilfred's letters, he traces the craggy traveller's devotion to his dead father, his mother and three brothers. At times, Sir Wilfred sounds more forgiving, especially of friends, and more playful than his reputation has suggested. As for his sexuality, Mr Maitland refers coyly to occasional “furtive embraces and voyeuristic encounters”, presumably with men. Wearisome as this topic has become, Mr Maitland achieves nothing by skirting it; and his allusion to Sir Wilfred's “almost-too precious” relationship with his mother is annoyingly vague.

There may be a reason why Mr Maitland struggles for critical distance. He writes that he and Sir Wilfred were long-standing friends, but he fails to mention that he collaborated with the explorer on four of his books and later inherited his London flat. If Mr Maitland found it so difficult to view his late friend and benefactor objectively, then perhaps he should not have tried. An earlier biography by Michael Asher, who scoured the deserts to track down Sir Wilfred's former fellow

travellers, was better; Mr Maitland seems to have interviewed almost nobody black or brown.

His book is, however, a useful companion to the explorer's autobiography, “The Life of My Choice”. Hopefully, it will also refer readers back to Sir Wilfred's two great books, and to sentences as lovely as this: “Memories of that first visit to the Marshes have never left me: firelight on a half-turned face, the crying of geese, duck flighting in to feed, a boy's voice singing somewhere in the dark, canoes moving in procession down a waterway, the setting sun seen crimson through the smoke of burning reed-beds, narrow waterways that wound still deeper into the Marshes.”

Wilfred Thesiger: The Life of the Great Explorer.
By Alexander Maitland.
HarperPress; 528 pages; £25

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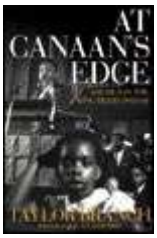
Martin Luther King

Freedom man

Feb 16th 2006
From The Economist print edition

NOT everyone loved Martin Luther King. The FBI director, J. Edgar Hoover, thought him phoney, subversive and a “burrhead”, which is perhaps why he decided not to inform King when the FBI heard of threats against his life. Hoover has long since passed into the National Hall of Infamy, but America owes him one small debt of gratitude: his obsessive bugging of King has given historians a mountain of material about one of the last century's most inspiring figures.

At Canaan's Edge: America in the King Years 1965-68
By Taylor Branch



Simon & Schuster; 1039 pages; $35

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Taylor Branch has spent 24 years mining this, and many other sources, for biographical ore. The result is colossal. “At Canaan's Edge”, the third and final volume of Mr Branch's trilogy of King biographies, dealing with the years 1965-68, weighs in at more than 1,000 pages, nearly a page for every day covered. Most readers will admire the author's indefatigability, but secretly wish he had done more sifting.

Perhaps it is the burden of expectation that comes with having “won almost every major award”, as the cover blurb boasts, that drives Mr Branch to make what would otherwise be a fine book so ponderous. The story of King's painful, peaceful struggle for civil rights is utterly gripping. Why clutter it with so much extraneous detail and so many incidental characters? And why devote so much space to King's opposition to the Vietnam war, which, though notable, is not what he is remembered for?

Mr Branch is at his best when he sticks to his central theme—that King's legacy is not merely equal rights for black Americans, but the principle that revolutions can be fought without violence. He stuck to this idea despite constant provocation by white racists and the growing scepticism of his fellow activists.

Five days after his last great triumph—the passage of the Voting Rights Act of 1965—the Watts riots erupted. Amid headlines such as “‘Get Whitey,’ Scream Blood-Hungry Mobs”, King flew to Los Angeles to try to soothe matters. Addressing a crowd from a small platform in the burned-out heart of Watts, he spoke over the hecklers:

> “All over America, Negroes must join hands and...”
>
> “And burn!” shouted a young man near him.
>
> “...And work together in a creative way,” King persisted.

In the end, he won over the crowd. And he won over America so thoroughly that practically every political faction now tries to claim his posthumous support. In the last years of King's short life,

many of the younger, hotter-headed campaigners thought his non-violent creed naive and outdated. It outlasted them. Icons such as Stokely Carmichael, the shades-and-rifle-toting self-styled “Prime Minister of the Black Nation”, who said the right to vote would always be “irrelevant to the lives of black people”, now seem ridiculous.

The book has been criticised for glossing over King's radical economic beliefs; he thought America might do better under some form of “democratic socialism”. This is interesting, but peripheral to the main story, and to chastise Mr Branch for devoting insufficient space to it is like chiding a biographer of Winston Churchill for paying too little attention to his work as an amateur painter.

By contrast, Mr Branch worries unduly about the vigour of the democratic ideal around the world and the force with which King believed non-violent change was the best way of achieving a universal franchise. Yet the number of elected democracies in the world has more than trebled since King's day. And many of these transitions have occurred, as Mr Branch acknowledges, with minimal bloodshed. Nelson Mandela, accepting the Nobel Peace prize in 1993, said his aim was to prove that King “was not a mere dreamer”. There are few better ways of judging a leader than by his followers.

At Canaan's Edge: America in the King Years 1965-68.
By Taylor Branch.
Simon & Schuster; 1039 pages; $35

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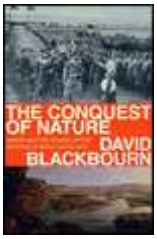
Germany

Water power

Feb 16th 2006
From The Economist print edition

IT USED to be said that “history's about chaps, geography's about maps.” David Blackbourn's arcane-sounding, but sublimely good book about water-management in Germany over the past 250 years or so, shows that this distinction no longer makes any sense at all.

The Conquest of Nature: Water, Landscape and the Making of Modern Germany
By David Blackbourn



Jonathan Cape; 497 pages; £30. To be published in America by Norton in June

Buy it at Amazon.co.uk

By examining the long history of efforts to tame the Rhine, the eastward expansion of the Third Reich, the toxic industrial policies of East Germany and the intense environmental consciousness that obsesses Germany today, Mr Blackbourn has found an original and suggestive way into the history of both Germany's aggrandisement and its humility. Evidently a subscriber to the view that “the historian should possess a pair of stout walking shoes”, he uses an array of written sources and a direct acquaintance with physical features of land and water to create a richly compelling narrative.

The cherished paradigm of the German landscape was forest, “der deutsche Wald”. Holding dear to this notion, it is easy to suppose that the Germans have not reclaimed land from water on a massive scale like the Dutch, pitched cities in swamp like Venice and St Petersburg or reversed the course of rivers like Stalin. Many believe that Germany's major topographical features have remained pretty constant over hundreds of years, that human action has affected them superficially if at all, and that the German landscape of the 20th century was pretty much the same as it was, say, in the 17th. Mr Blackbourn, professor of modern European history at Harvard, shows just how far this myth diverges from reality.

While insisting that there is no such thing as landscape in a state of nature—all of Europe, at least, bears the traces of human occupation, going back for hundreds if not thousands of years—Mr Blackbourn describes a Germany that resembles the world on the third day of the Creation, a thorough mishmash of land and water. When Johann Gottfried Tulla, an engineer, said 200 years ago, “no river or stream, including the Rhine, needs more than one bed,” it needed saying; certainly the Rhine itself seemed not to know. Originally an unkempt, “braided” river—Mr Blackbourn has a wonderful flair for language—the Rhine went on to lose almost a quarter of its length as a result of industrial development. Other changes followed: such activities as gold-washing (there was such a thing as Rhine gold), marsh-fishing and buckwheat-growing variously disappeared. Once rivers were regulated, they also became navigable—“The Conquest of Nature” is full of such consequences—and the newly established shipping industry itself became an engine for further change.

If that was the West, with Germany's totemic river, the Rhine, what of the East, where, like America, the land was claimed to need settling, taming, breaking? “The Volga must be our Mississippi,” Hitler said in 1941. The pretence was that the land to the east was unpopulated, or if

it was occupied, then somehow that it didn't matter.

Slavs, Poles and Jews were described by the Third Reich in characteristically watery, marshy terms denoting their passivity, their cunning, their fertility, their lack of civilisation. To Primo Levi, picking up the governing metaphor of the master race, Auschwitz was “the ultimate drainage point of the German universe.”

Throughout the book there is a magnificent tension between “progress” and “conservation”. Germans have always considered themselves as having “a special feeling for nature”, though this can take wildly different forms. Conservation speaks, on one occasion, in the voice of a cast of anthropomorphised insects in a 1901 novel against dam-building, and in another in that of Heinrich Himmler, who wanted to introduce nesting storks into concentration camps. Fascist progressives, meanwhile, wanted a landscape that “will no longer have the look of something that is almost the product of nature.”

“The Conquest of Nature” is far more than a good book on an out-of-the-way subject. Wim Wenders believed there was a connection between machinery (especially trains) and the camera, itself a late product of the mechanical age. This book proves that just as profound an affinity exists between history—and the study of causes and effects—and water, which are at once both intricate and implacable. Mr Blackbourn says in his introduction that “the generous vision of ‘total history’ can never be achieved, but it is still worth reaching for.” With “The Conquest of Nature”, he has achieved it.

The Conquest of Nature: Water, Landscape and the Making of Modern Germany.
By David Blackbourn.
Jonathan Cape; 497 pages; £30. To be published in America by Norton in June

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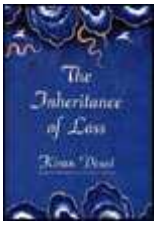
New fiction

Comings and goings (1)

Feb 16th 2006
From The Economist print edition

ALTHOUGH the immigrant experience in the United States has been amply addressed in literature, no subject is tired when tackled with the energy and intelligence of Kiran Desai's “The Inheritance of Loss”. Just as any homeland continues to teem while its emigrants find new, achingly amputated lives abroad, Ms Desai's second novel split-screens between a once-distinguished but increasingly bedraggled household in northern India and the discouraging adventures of its cook's son as an illegal immigrant in New York.

The Inheritance of Loss
By Kiran Desai



Atlantic Monthly Press; 324 pages; $24. To be published in Britain by Hamish Hamilton in August

Buy it at
Amazon.com

Neither hemisphere fosters a fairy tale. In the Himalayas, village life—hard at the best of times—deteriorates into chaos and penury even for the advantaged when a Nepalese insurgency takes over the town. As young firebrands rain woes on ordinary folk just trying to get by, the high-falutin' political rhetoric disguises a mix of jealousy, greed and inchoate quests for identity.

Meanwhile, the village's young emissary to the West, Biju, knocks around from restaurant to restaurant in Manhattan, staying in rat-infested hovels and coming into frequent contact with fellow Indian immigrants. Biju's forerunners like to press the question of “what he is doing and why. It hadn't even been a question before he left. Of course, if you could go, you went, of course, if you could, you stayed.” Yet what would he achieve in working his way up from Freddy's Wok to Birgitte's, “a restaurant all of mirrors so the diners might observe exactly how enviable they were as they ate”?

As circumstances deteriorate in tandem, it is quite a contest where life is worse. The most modest of advantages compete: in America, “they should put their plumbing on their flag.” In India, “one's involvement in other people's lives gave one numerous small opportunities for importance.”

Ms Desai's Indian characters are exquisitely particular—funny but never quaint, full of foibles but never reduced by authorial condescension. Bittersweet, entertaining, and just shy of tragic, “The Inheritance of Loss” is surprisingly wise for a young author. Indian-born though western-educated, Ms Desai grasps that to leave your country is to lose and to stay put is to lose too: not an easy choice.

The Inheritance of Loss.
By Kiran Desai.
Atlantic Monthly Press; 324 pages; $24. To be published in Britain by Hamish Hamilton in August

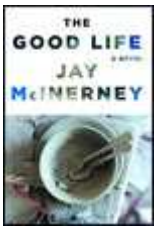
New fiction

Comings and goings (2)

Feb 16th 2006
From The Economist print edition

TWENTY years ago in “Bright Lights, Big City”, Jay McInerney stylishly laid bare the pharmaceutical fast-lane of youthful New York in the 1980s. Yet his middle-aged characters in “The Good Life” are familiar literary fare: dividing between rich and richer, they have eating disorders and drink too much. Even the backdrop of the September 11th 2001 attacks cannot relieve the sensation of having read all this before. Indeed, the jarring contrast between the momentous historical context and the commonplace bed-hopping of the upper class that takes centre stage is embarrassing. While Mr McInerney does drop the odd ironic detail—an argument over whether Israeli or American military gas masks are more reliable—in the main he relates his story with po-faced earnestness.

The Good Life
By Jay McInerney



Knopf; 353 pages; $25.
Bloomsbury; £16.99.

Buy it at
Amazon.com
Amazon.co.uk

A would-be screenwriter married to an editor who runs with Salman Rushdie's set, Corrine was left infertile by a bout of anorexia and has borne twins only with the help of her sister's implanted eggs. A wealthy ex-trader married to a vain socialite, Luke has taken early retirement to get closer to his all-too-grown-up teenage daughter, and to find himself. Instead, when the World Trade Centre collapses, he finds Corrine, as they both volunteer for a soup kitchen feeding rescue workers. Once the two begin an affair—justified, even over-justified, by much sordid behaviour by both their spouses—Corrine must choose between family stability for her children and true love.

There is nothing implicitly discomfiting about small personal stories told against the backdrop of grand tragedy. The problem here is style. Mr McInerney's prose is plain to the point of dumpy. Tear a stray page from this novel, and it could pass for the kind of over-obvious, middle-brow romantic fiction that gives women's writing a bad name: “If only she didn't love his scent and the feel of his sweat on her cheeks; if only his eyes weren't so beguiling, so boyishly innocent.” Or, “She wanted to strip herself naked before him, even as the ravening desire she felt for him was superseded by a tenderness that was almost maternal.” Descriptions of pawing the rubble of the twin towers are little more distinguished. A difficult subject, granted, but September 11th deserves better.

The Good Life.
By Jay McInerney.
Knopf; 353 pages; $25.
Bloomsbury; £16.99.

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Freddie Laker

Feb 16th 2006
From The Economist print edition

Sir Freddie Laker, airline pioneer, died on February 9th, aged 83

Getty Images

IN A lifetime dedicated to piloting and managing aircraft of all sorts, Freddie Laker rarely felt scared. But there were exceptions. In the winter of 1948-49 he found himself flying old Halifax bombers over Germany, going to the relief of Berlin after it had been blockaded by the Russians. Ice coated his windscreen. More ice would have clogged his wings, had he not smeared thick grease over them. Russian planes buzzed him and, unable to get much height, he could watch Russian guns firing at him from the ground.

In these planes—"deathtraps" and "junk" as he thought of them—he and his team flew 4,700 sorties in 54 weeks. Under each plane, roughly in place of the bomb chamber, hung a pannier containing oil, coal and potatoes. Though the oil added to the hazard, the coal was worse, covering him with black dust as though he had been down a mine. But Mr Laker could not have cared less. "It was all about freedom," he said later.

Flying and freedom were inseparable in his mind. They had been so ever since, as a yobbish teenager eating fish and chips in the street with his mates, he had looked up to see the German airship *Hindenburg* and a Handley Page biplane flying at the same moment over Canterbury Cathedral. Home life was a struggle in a cold-water flat, school a dead end, but up there was limitless. For the rest of his life, whenever high spirits seized him, the big, ebullient, grinning Mr Laker would spread out his arms and mimic a plane.

Yet the sky, he was soon to find, was not as open as all that. Commercial air routes had been neatly divided up between big carriers and, after the war, the Labour government nationalised the industry. On both sides of the Atlantic, politicians and national airlines colluded with each other to

keep ticket prices high. The ordinary man could only dream of flying. The wide blue yonder was out of his reach.

That it is not so these days is largely due to Mr Laker. Any passenger who now jets to Italy or Greece for the price of a train fare to the suburbs is following the trail he blazed. Mr Laker in 1977 introduced the first outrageous discounts, £118 ($206) to fly the Laker Skytrain from London to New York, and the first taste of no frills: if staff were scarce, he sometimes loaded bags himself. And he offered these benefits on long-haul flights, something his brash young acolytes—from Southwest Airlines to Ryanair to easyJet—have yet to attempt.

The public loved it. By the end of its first year, Skytrain had made profits of £3m and the number of passengers from Britain to America had shot up by 30%. Within five years, it had 20 aircraft. Then, inexorably, the big carriers closed in. Since restrictive trade agreements, underpinned by legislation, could not keep Mr Laker out, they slashed their own prices to undercut him. This, and the world recession of 1980-81, drove Laker Airways into bankruptcy. Only when the creditors sued did the airlines plead guilty to predatory pricing. Mr Laker's best advice to his disciple and friend Richard Branson, when Mr Branson was setting up cut-price Virgin Atlantic, was to sue the bastards before, not after, going belly-up.

Car-boot sales

Up until 1982, Mr Laker had thrived on luck and opportunism. By meeting a useful man in 1941, he learned from scratch to fly four-engine aircraft. His first enterprise was to sell aeronautical spare parts out of the boot of a car, his second to strip the platinum points off the spark-plugs of Bristol Hercules engines. The Berlin airlift (“the best piece of luck I ever had”, since he just happened to have bought 12 of those second-hand bombers) got him easily and profitably into the cargo-delivery business. This led him to think of ways to wriggle into the commercial passenger trade.

He made his play deviously and slowly. In the 1950s he converted a fleet of DC4s to take passengers and cars from Southend, which the big carriers did not use, to Calais. Then in 1966 he observed that a loophole in the law allowed independents to take “affinity groups”, such as clubs, abroad. Immediately, his passengers were made members of the Right Wheel Group or the Left Wing Club, and Mr Laker would appear at Gatwick with a Bible on which they would swear club allegiance if the airline snoops were watching. Once the Department of Trade had rumbled him, in 1971, he began to think of a different ruse to break the cartel: running an air operation that passengers would treat like a train. The rest was history.

His adventure with Laker Airways earned him a knighthood from a red-faced Labour government and the devotion of Margaret Thatcher. He bought boats, Rolls Royces and race horses, and regularly changed wives. After the crash he left England, feeling unappreciated, to toy with low-cost airlines in Florida.

His last venture, in 1996, flew out of the Bahamas. This one was rather different to the others he had managed. There were leather seats and gilt-edged dinner plates; wines were served in crystal glasses. Mr Laker had made flying, once again, an occupation for the elite. Nonetheless, the man on the 9.30 from Stansted to Palma, crushed in a middle seat between crying children and with a home-made sandwich as his sustenance, should raise a plastic cup to freedom and to Freddie.

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Overview

Feb 16th 2006
From The Economist print edition

The warmest January on record in the **United States** probably distorted that month's economic figures. The value of retail sales jumped by 2.3%, to give a 12-month gain of 8.5%. In contrast, industrial production fell by 0.2%, reducing the 12-month rate of growth to 3.1%. The mild weather reduced the demand for heating, causing the output of utilities to drop by 10.1%. Excluding utilities, output rose by 0.7%.

America's trade deficit in goods and services widened to a record $726 billion in 2005, almost one-fifth bigger than in 2004. Net foreign purchases of American securities fell to a smaller-than-expected $56.6 billion in December (less than the trade gap), from $91.6 billion in November. Net purchases of Treasury securities fell to $18.3 billion, the lowest for six months.

GDP growth in the **euro zone** slowed to an annual rate of only 1.2% in the fourth quarter of last year, down from 2.6% in the previous three months. The 12-month rate of increase edged up slightly to 1.7%. The two biggest economies were the chief laggards. **Germany's** output was flat during the quarter, while **France's** grew by a paltry annual rate of 0.8%. By contrast, both **Spain** and the **Netherlands** enjoyed quarterly growth rates of more than 3%. New figures also showed that French industrial output fell by 0.4% in the year to December, while Italy's surged by 3.5%.

Japan's current-account surplus narrowed to $164 billion in 2005, down from $172 billion in 2004. However, it still has the world's biggest surplus. Japanese retail sales increased by 1.2% in the year to December, following eight years of decline.

The number of people claiming unemployment benefit in **Britain** fell in January for the first time in a year. However, the wider ILO measure rose by 108,000 in the three months to December. The jobless rate rose to 5.1%, the highest since April 2003. Consumer prices rose by a lower-than-expected 1.9% in the year to January, staying below the Bank of England's 2% target for the second month running. However, the 12-month rate of increase in average wages quickened to 3.6% in the three months to December.

Canada's jobless rate edged up to 6.6% in January, mainly because more people entered the workforce.

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Output, demand and jobs

Feb 16th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		Unemployment % rate year ago
Australia	+ 2.6	Q3	+ 0.6	+ 2.5	+ 3.1	+ 1.3	Q3	+ 1.9	Q4	5.3	Jan	5.1
Austria	+ 2.1	Q4	+ 2.8	+ 1.9	+ 2.1	+ 2.8	Nov	+ 1.5	Nov	5.1	Jan	5.0
Belgium	+ 1.1	Q3	+ 1.7	+ 1.4	+ 2.0	+ 2.2	Dec	nil	Nov	12.9	Dec†	12.8
Britain	+ 1.7	Q4	+ 2.4	+ 1.7	+ 2.1	– 2.7	Dec	+ 1.3	Jan	5.1	Dec††	4.7
Canada	+ 2.8	Q3	+ 3.6	+ 2.9	+ 3.2	+ 1.5	Nov	+ 4.0	Nov	6.6	Jan	7.0
Denmark	+ 4.8	Q3	+ 5.7	+ 3.3	+ 2.8	+ 5.5	Dec	+ 4.8	Dec	5.1	Dec	6.1
France	+ 1.4	Q4	+ 0.8	+ 1.6	+ 2.0	– 0.4	Dec	+ 2.1	Dec	9.5	Dec	10.0
Germany	+ 1.0	Q4	nil	+ 1.1	+ 1.7	+ 3.4	Dec	– 1.6	Dec	11.3	Jan§	11.5
Italy	+ 0.1	Q3	+ 1.1	+ 0.1	+ 1.2	+ 3.5	Dec	+ 0.4	Nov	7.5	Sep	7.9
Japan	+ 2.9	Q3	+ 1.0	+ 2.6	+ 2.5	+ 3.8	Dec	+ 1.2	Dec	4.4	Dec	4.5
Netherlands	+ 1.6	Q4	+ 3.9	+ 0.9	+ 1.9	+ 1.4	Dec	+ 4.0	Nov	6.2	Jan**	6.6
Spain	+ 3.5	Q4	+ 3.3	+ 3.4	+ 3.0	+ 0.9	Dec	nil	Dec	8.5	Dec	10.3
Sweden	+ 3.4	Q3	+ 3.9	+ 2.6	+ 3.2	+ 2.7	Dec	+10.7	Dec	6.3	Jan†	5.5
Switzerland	+ 2.3	Q3	+ 4.3	+ 1.8	+ 2.2	+ 2.8	Q3	+ 2.2	Nov	3.9	Jan†	4.1
United States	+ 3.1	Q4	+ 1.1	+ 3.6	+ 3.3	+ 3.1	Jan	+ 4.4	Dec	4.7	Jan	5.2
Euro area	+ 1.7	Q4	+ 1.2	+ 1.4	+ 1.9	+ 2.6	Nov	+ 0.8	Dec	8.4	Dec	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.5	Q4	+ 3.7	na	na	– 1.4	Dec	+ 6.5	Dec	8.4	Dec	8.6
Greece	+ 3.7	Q4	na	na	na	– 0.9	Dec	+ 1.6	Nov	9.7	Q3	10.1
Iceland	+ 4.0	Q3	na	na	na	na		na		1.5	Dec†	2.7
Ireland	+ 4.8	Q3	+ 1.3	na	na	+ 4.3	Dec	+ 5.0	Dec	4.3	Jan	4.2
Luxembourg	+ 3.1	Q1	na	na	na	+ 5.9	Nov	+ 0.2	Dec	5.0	Dec	4.5
New Zealand	+ 2.0	Q3	+ 0.2	na	na	– 2.7	Q3	+ 3.0	Q4	3.6	Q4	3.6
Norway	+ 3.1	Q3	+ 3.2	na	na	+ 2.6	Dec	+ 3.3	Dec	4.5	Dec‡	4.4
Portugal	+ 0.2	Q3	– 3.7	na	na	+ 5.1	Dec	+ 1.5	Dec	8.0	Q4†	7.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Oct-Dec; claimant count rate 2.9% in Jan.
§EU harmonised rate 9.5% in Dec. **Nov-Jan. ‡Oct-Dec.

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Prices and wages

Feb 16th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2005	2006	latest		year ago	latest		year ago
Australia	+ 2.8	Q4	+ 2.6	+ 2.7	+ 2.9	+ 4.8	Q4	+ 8.2	+ 6.1	Q3	+ 3.5
Austria	+ 1.6	Dec	+ 2.9	+ 2.3	+ 1.9	+ 1.7	Jan	+ 4.7	+ 2.4	Dec	+ 2.0
Belgium	+ 2.6	Jan	+ 2.3	+ 2.7	+ 2.2	+ 2.4	Dec	+ 5.3	+ 2.3	Oct	+ 2.4
Britain	+ 1.9	Jan*	+ 1.6	+ 2.1	+ 2.0	+ 2.9	Jan	+ 2.6	+ 3.6	Dec†	+ 4.3
Canada	+ 2.2	Dec	+ 2.1	+ 2.3	+ 2.2	+ 2.5	Dec	+ 3.6	+ 1.5	Nov	+ 2.6
Denmark	+ 2.1	Jan	+ 1.0	+ 1.8	+ 1.9	+ 4.6	Dec	+ 2.7	+ 2.9	Q4	+ 2.9
France	+ 1.5	Dec	+ 2.1	+ 1.8	+ 1.7	+ 3.1	Dec	+ 3.0	+ 3.2	Q3	+ 2.9
Germany	+ 2.1	Jan	+ 1.6	+ 2.0	+ 1.7	+ 2.9	Jan	+ 3.4	+ 0.2	Nov	− 0.5
Italy	+ 2.2	Jan	+ 1.9	+ 2.1	+ 2.1	+ 4.1	Dec	+ 4.2	+ 2.3	Dec	+ 3.3
Japan	− 0.1	Dec	+ 0.2	− 0.2	+ 0.3	+ 2.7	Jan	+ 1.4	+ 1.6	Dec	+ 0.8
Netherlands	+ 1.3	Jan	+ 1.5	+ 1.5	+ 1.6	+ 5.6	Dec	+ 5.1	+ 1.4	Jan	+ 0.7
Spain	+ 4.2	Jan	+ 3.1	+ 3.4	+ 3.2	+ 5.2	Dec	+ 5.0	+ 1.9	Q3	+ 2.2
Sweden	+ 0.6	Jan	nil	+ 0.6	+ 1.5	+ 6.4	Dec	+ 2.0	+ 3.3	Nov	+ 2.4
Switzerland	+ 1.3	Jan	+ 1.1	+ 1.2	+ 1.1	+ 1.1	Dec	+ 1.7	+ 0.9	2004	+ 1.4
United States	+ 3.4	Dec	+ 3.3	+ 3.4	+ 2.9	+ 5.4	Dec	+ 4.4	+ 3.3	Jan	+ 2.6
Euro area	+ 2.4	Jan	+ 1.9	+ 2.2	+ 2.0	+ 4.6	Dec	+ 3.5	+ 2.2	Q3	+ 1.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.0	Dec	+ 0.4	na	na	+ 5.2	Dec	+ 0.7	+ 3.5	Q4	+ 4.3
Greece	+ 3.2	Jan	+ 4.0	na	na	+ 8.3	Dec	+ 2.9	na		na
Iceland	+ 4.1	Feb	+ 4.5	na	na	+ 3.8	Jan	+ 8.6	+ 7.2	Dec	+ 6.0
Ireland	+ 3.0	Jan	+ 2.3	na	na	+ 3.5	Dec	− 1.6	+ 3.5	Q3	+ 4.7
Luxembourg	+ 2.5	Dec	+ 2.2	na	na	+ 1.9	Nov	+15.6	+ 0.8	Nov	+ 3.9
New Zealand	+ 3.2	Q4	+ 2.7	na	na	+ 6.5	Q4	+ 3.4	+ 3.1	Q4	+ 2.5
Norway	+ 1.8	Jan	+ 1.1	na	na	+25.4	Jan	+11.7	+ 2.6	Q3	+ 4.3
Portugal	+ 2.6	Jan	+ 2.0	na	na	+ 3.9	Dec	+ 4.7	− 0.4	Dec	− 1.8

*RPI inflation rate 2.4% in Jan. †Oct-Dec.

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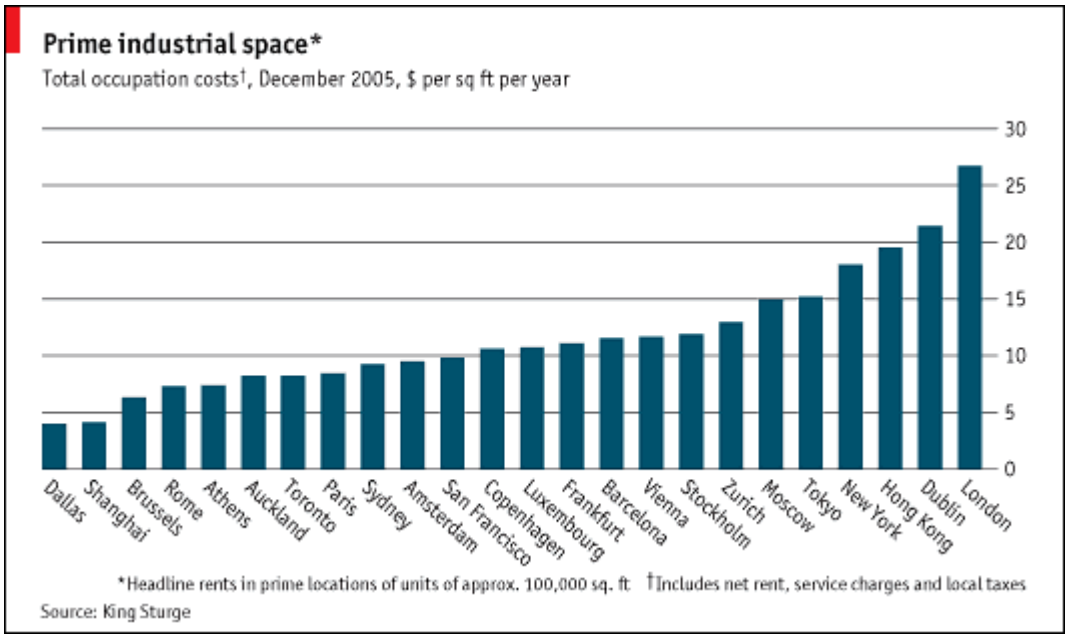
Prime industrial space

Feb 16th 2006
From The Economist print edition

It costs more than $26 to rent a square foot of space in a large warehouse close to London's Heathrow airport, according to King Sturge, a property consultancy. Industrial rents are flat in America, but rising in parts of Australia and New Zealand, where high-quality space is hard to find. Such shortages are no longer a problem in Toronto, Canada, where speculators are struggling to fill all the new warehouses they have built.



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Money and interest rates

Feb 16th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Feb 15th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.1	+ 9.1	Dec	5.62	5.67	5.19	5.27	5.40	6.26
Britain	+ 4.6	+12.6	Dec	4.52	4.84	4.24	4.17	4.58	5.13
Canada	+11.1	+ 7.7	Dec	3.64	2.43	3.96	4.24	4.26	5.35
Denmark	+19.9	+14.7	Dec	2.57	2.20	2.92	3.45	3.57	4.96
Japan	+ 5.3	+ 1.9	Jan	0.03	0.02	0.39	1.57	1.42	1.81
Sweden	+ 2.3	+ 9.9	Dec	1.91	1.95	2.50	3.39	3.65	3.34
Switzerland	+ 5.4	+ 5.6	Dec	1.08	0.75	1.53	2.18	2.06	2.20
United States	- 0.1	+ 7.8	Dec	4.63	2.60	4.71	4.64	4.16	5.52
Euro area†	+11.3	+ 7.3	Dec	2.60	2.14	2.88	3.46	3.50	3.97

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.57%, Japan No. 276 1.57%. Central bank rates: US fed funds 4.50%, ECB refinancing 2.25%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, J.P. Morgan Chase, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Feb 16th 2006
From The Economist print edition

2000=100

	Feb 7th	Feb 14th*	% change on one month	% change on one year
Dollar index				
All items	159.2	155.5	+ 3.6	+20.9
Food	136.7	136.1	+ 2.8	+12.4
Industrials				
All	188.4	180.6	+ 4.4	+30.5
Nfa†	151.6	146.9	+ 2.6	+15.6
Metals	208.4	199.0	+ 5.2	+37.6
Sterling index				
All items	138.5	136.4	+ 5.4	+31.9
Euro index				
All items	123.0	121.1	+ 5.3	+32.0
Yen index				
All items	174.5	169.5	+ 5.1	+35.6
Gold				
$ per oz	556.65	543.85	- 2.7	+27.9
West Texas Intermediate				
$ per barrel	62.90	59.45	−10.4	+25.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

Feb 16th 2006
From The Economist print edition

Market indices

	Feb 15th	2005-06 high	2005-06 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,781.5	4,903.9	3,905.5	+ 0.1	- 2.5	+18.0	+11.6
Austria (ATX)	3,979.2	4,035.5	2,415.0	- 0.1	- 1.4	+63.7	+43.3
Belgium (Bel 20)	3,770.8	3,806.8	2,958.8	- 0.1	- 0.9	+28.6	+12.6
Britain (FTSE 100)	5,791.5	5,808.8	4,783.6	+ 1.2	-16.4	+20.3	+ 9.3
Canada (Toronto Composite)	11,557.3	12,080.5	9,006.2	- 1.5	- 4.3	+25.0	+29.8
Denmark (OMXCB)	373.0	377.8	257.8	+ 0.1	- 1.3	+44.7	+26.2
France (SBF 250)	3,475.2	3,510.4	2,633.6	+ 1.0	-20.9	+31.9	+15.5
(CAC 40)	4,934.1	4,999.4	3,816.1	+ 0.8	-28.7	+29.1	+13.0
Germany (DAX)*	5,764.4	5,764.4	4,178.1	+ 1.7	-28.5	+35.4	+18.6
Italy (S&P/MIB)	36,933.0	37,071.0	30,645.0	+ 0.8	-26.3	+19.5	+ 4.6
Japan (Nikkei 225)	15,932.8	16,747.8	10,825.4	- 2.1	-59.1	+38.7	+21.0
(Topix)	1,624.3	1,713.5	1,109.2	- 2.8	-43.7	+41.3	+23.2
Netherlands (AEX)	460.6	460.6	347.0	+ 1.8	-34.4	+32.3	+15.8
Spain (Madrid SE)	1,233.1	1,233.6	950.9	+ 1.8	nil	+28.6	+12.6
Sweden (Affarsvarlden Gen)	302.4	302.4	218.9	+ 1.3	-24.4	+36.7	+15.9
Switzerland (Swiss Market)	7,797.2	7,889.3	5,669.6	- 0.4	- 7.3	+37.0	+19.0
United States (DJIA)	11,059.0	11,059.0	10,012.4	+ 1.8	- 5.7	+ 2.6	+ 2.6
(S&P 500)	1,280.0	1,294.2	1,137.5	+ 1.1	-16.2	+ 5.6	+ 5.6
(NASDAQ Comp)	2,276.4	2,331.4	1,904.2	+ 0.4	-54.9	+ 4.6	+ 4.6
Europe (FTSEurofirst 300)†	1,331.0	1,333.3	1,038.6	+ 1.2	-21.9	+27.8	+11.9
Euro area (FTSE Euro 100)†	1,140.1	1,141.6	894.4	+ 1.5	-26.5	+26.5	+10.8
World (MSCI)‡	1,295.8	1,314.6	1,115.0	+ 0.6	-10.6	+10.8	+10.8
World bond market (Citigroup)††	620.7	662.3	608.7	+ 0.1	- 6.3	- 6.8	- 6.8

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Feb 16th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 2000=100 Feb 15th	year ago	Currency units per $ Feb 15th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 13.6	Dec	− 43.5	Q3	− 5.9	− 5.3	117.9	116.4	1.35	1.28	2.35	1.60	1.15	+ 1.0
Austria	− 2.1	Nov	− 0.4	Nov	nil	+ 0.1	103.7§	105.3	0.84	0.77	1.47	–	0.72	− 2.0
Belgium	+ 14.2	Nov	+ 8.2	Sep	+ 1.8	+ 2.0	104.2§	106.2	0.84	0.77	1.47	–	0.72	nil
Britain	−119.1	Dec	− 40.6	Q3	− 2.0	− 2.3	98.2	99.9	0.57	0.53	–	0.68	0.49	− 3.1
Canada	+ 55.6	Dec	+ 19.6	Q3	+ 1.9	+ 1.8	126.1	115.1	1.15	1.24	2.01	1.37	0.98	+ 1.3
Denmark	+ 9.6	Dec	+ 8.7	Dec	+ 3.2	+ 3.0	105.8	106.6	6.27	5.73	10.9	7.47	5.34	+ 2.8
France	− 32.0	Dec	− 34.6	Nov	− 1.3	− 1.2	106.7§	109.0	0.84	0.77	1.47	–	0.72	− 3.2
Germany	+200.0	Dec	+112.8	Dec	+ 4.0	+ 3.8	104.4§	107.0	0.84	0.77	1.47	–	0.72	− 3.9
Italy	− 11.8	Nov	− 28.9	Nov	− 1.5	− 1.4	76.4§	78.0	0.84	0.77	1.47	–	0.72	− 4.3
Japan	+ 94.0	Dec	+164.0	Dec	+ 3.5	+ 3.6	82.1	88.4	117	105	205	140	–	− 6.5
Netherlands	+ 40.1	Dec	+ 39.8	Q4	+ 5.0	+ 5.0	103.7§	105.7	0.84	0.77	1.47	–	0.72	− 1.6
Spain	− 96.4	Nov	− 84.0	Nov	− 6.7	− 6.9	77.1§	78.2	0.84	0.77	1.47	–	0.72	+ 0.3
Sweden	+ 19.3	Dec	+ 24.2	Q3	+ 7.0	+ 6.8	96.2	100.2	7.84	6.99	13.7	9.33	6.67	+ 1.2
Switzerland	+ 6.7	Dec	+ 49.3	Q3	+13.5	+13.4	106.0	107.6	1.31	1.19	2.28	1.56	1.11	− 1.6
United States	−782.1	Dec	−780.6	Q3	− 6.5	− 6.6	87.0	82.6	–	–	1.74	1.19	0.85	− 3.7
Euro area	+ 35.9	Nov	− 26.3	Nov	− 0.1	− 0.1	115.6	118.5	0.84	0.77	1.47	–	0.72	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 10.6	Dec	+ 5.6	Dec	na	na	81.4§	82.9	0.84	0.77	1.47	–	0.72	+ 2.1
Greece	− 34.1	Nov	− 17.0	Nov	na	na	59.8§	60.6	0.84	0.77	1.47	–	0.72	− 4.5
Iceland	− 1.5	Nov	− 2.2	Q3	na	na	113.6**	96.6	63.7	62.3	111	75.8	54.2	+ 2.0
Ireland	+ 40.2	Dec	− 3.7	Q3	na	na	93.7§	97.1	0.84	0.77	1.47	–	0.72	− 0.9
Luxembourg	− 4.8	Nov	+ 3.5	Q3	na	na	104.2§	106.2	0.84	0.77	1.47	–	0.72	− 2.3
New Zealand	− 4.5	Dec	− 9.1	Q3	na	na	136.3	134.5	1.48	1.40	2.57	1.76	1.26	+ 5.3
Norway	+ 49.6	Jan	+ 43.7	Q3	na	na	107.2	104.8	6.84	6.44	11.9	8.14	5.82	+ 15.3
Portugal	− 23.3	Nov	− 16.7	Nov	na	na	93.7**	94.0	0.84	0.77	1.47	–	0.72	− 6.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, December average. ‡OECD estimate.
**IMF, October average.

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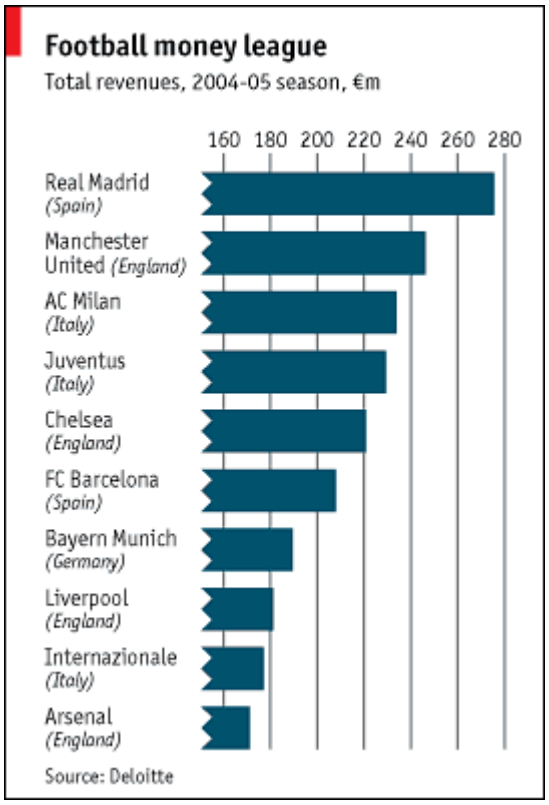
Football money league

Feb 16th 2006
From The Economist print edition



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Overview

Feb 16th 2006
From The Economist print edition

Russia's trade surplus widened to $120.1 billion in 2005, up by almost 40% from $85.8 billion in 2004. Industrial output expanded by 4.4% in January compared with a year earlier.

India's industrial production grew by 5% in the year to December, down from 8.9% in 2004. The country's foreign-exchange reserves rose slightly, to $133 billion in January 2006.

Indonesia's output growth slowed to 4.9% in the year to the fourth quarter.

Mexico's 12-month rate of consumer-price inflation jumped to 3.9% in January, up from 3.3% in December.

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The Economist poll of forecasters

Feb 16th 2006
From The Economist print edition

Every three months, *The Economist* polls a group of forecasters and averages their predictions for economic growth and current-account balances in 25 emerging economies. Compared with November, the panel has become more optimistic about this year's growth, raising the projections in 23 countries and leaving the remaining two unchanged. The biggest upgrade is for Argentina, now expected to grow in 2006 by 6.2% rather than 4.6%.

February

	Real GDP % change		Current account % of GDP	
	2005	2006	2005	2006
China	9.7	8.7	6.2	5.3
Hong Kong	7.3	5.1	11.8	11.7
India	7.7	7.2	-2.1	-2.6
Indonesia	5.1	4.8	0.8	0.8
Malaysia	5.1	5.0	13.1	12.0
Philippines	4.8	4.8	3.1	3.0
Singapore	5.7	5.4	27.6	24.4
South Korea	4.0	4.7	4.1	2.8
Taiwan	3.9	4.1	4.1	4.1
Thailand	4.6	5.1	-1.2	-0.7
Argentina	8.7	6.2	2.6	1.5
Brazil	2.5	3.6	1.7	0.9
Chile	6.0	5.4	0.6	-0.2
Colombia	4.6	4.2	-1.2	-1.2
Mexico	3.1	3.5	-1.0	-1.4
Peru	6.1	4.7	1.1	0.5
Venezuela	8.4	5.5	16.4	11.9
Egypt	4.6	5.1	2.8	1.9
Israel	5.2	4.3	0.8	0.4
South Africa	4.9	4.4	-4.1	-3.9
Czech Republic	4.9	4.5	-2.4	-2.2
Hungary	4.2	4.2	-7.9	-8.3
Poland	3.3	4.4	-1.3	-1.8
Russia	6.3	6.2	12.0	10.3
Turkey	5.5	4.9	-6.3	-6.2

Sources: ABN Amro; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Financial Markets; J.P. Morgan Chase; Merrill Lynch; UBS.

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Economy

Feb 16th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+16.5	Dec	+ 1.6	Dec	+105.1	Jan	+128.5	H1	818.9	Dec
Hong Kong	+ 8.2	Q3	+ 4.1	Q3	+ 1.8	Dec	−10.5	Dec	+21.0	Q3	127.8	Jan
India	+ 8.0	Q3	+ 5.0	Dec	+ 5.6	Dec	−37.4	Jan	−18.3	Q3	133.4	Jan
Indonesia	+ 4.9	Q4	+11.3	Nov	+17.0	Jan	+27.8	Dec	+ 0.7	Q3	33.1	Dec
Malaysia	+ 5.3	Q3	+ 4.2	Dec	+ 3.5	Dec	+26.4	Dec	+18.7	Q3	69.9	Dec
Pakistan	+ 8.4	2005†	+19.3	Sep	+ 8.8	Jan	− 9.3	Dec	− 3.7	Q3	10.0	Dec
Philippines	+ 6.1	Q4	+ 4.0	Nov	+ 6.7	Jan	− 2.6	Nov	+ 2.9	Sep	17.8	Jan
Singapore	+ 8.7	Q4	+ 5.1	Dec	+ 1.3	Dec	+29.6	Dec	+33.7	Q3	120.2	Jan
South Korea	+ 5.2	Q4	+11.3	Dec	+ 2.8	Jan	+21.1	Jan	+16.6	Dec	216.9	Jan
Taiwan	+ 4.4	Q3	+ 9.5	Dec	+ 2.7	Jan	+ 9.6	Jan	+ 8.9	Q3	257.3	Jan
Thailand	+ 5.3	Q3	+ 6.1	Dec	+ 5.9	Jan	− 9.0	Dec	− 3.7	Dec	50.7	Dec
Argentina	+ 9.2	Q3	+ 7.9	Dec	+12.1	Jan	+11.3	Dec	+ 4.4	Q3	25.7	Nov
Brazil	+ 1.0	Q3	+ 3.2	Dec	+ 5.7	Jan	+45.4	Jan	+14.2	Dec	53.2	Dec
Chile	+ 5.2	Q3	+ 6.0	Dec	+ 4.1	Jan	+ 9.2	Jan	− 0.2	Q3	15.9	Jan
Colombia	+ 5.8	Q3	+ 0.6	Nov	+ 4.6	Jan	+ 1.5	Oct	− 1.7	Q3	14.8	Dec
Mexico	+ 2.7	Q4	+ 2.7	Dec	+ 3.9	Jan	− 7.6	Dec	− 8.4	Q3	74.1	Dec
Peru	+ 7.4	Dec	+ 7.6	Nov	+ 1.9	Jan	+ 5.1	Dec	+ 0.8	Q3	13.2	Dec
Venezuela	+ 9.8	Q3	+10.8	Oct	+13.1	Jan	+28.2	Q3	+21.6	Q3	23.4	Nov
Egypt	+ 5.2	Q1	+ 4.0	2005†	+ 3.1	Dec	−11.3	Q3	+ 1.8	Q3	20.8	Jan
Israel	+ 4.8	Q4	+ 3.5	Nov	+ 2.7	Jan	− 8.4	Jan	+ 2.4	Q3	28.3	Jan
Saudi Arabia	+ 6.5	2005‡	na		+ 1.0	Sep	+84.6	2004	+51.9	2004	26.5	Dec
South Africa	+ 4.9	Q3	+ 6.2	Dec	+ 3.6	Dec	− 2.8	Dec	−10.3	Q3	19.9	Jan
Czech Republic	+ 4.9	Q3	+ 7.1	Dec	+ 2.9	Jan	+ 1.8	Dec	− 3.4	Q3	29.5	Jan
Hungary	+ 4.1	Q4	+12.9	Dec	+ 2.7	Jan	− 3.4	Dec	− 8.7	Q3	20.1	Jan
Poland	+ 3.7	Q3	+ 9.2	Dec	+ 0.7	Jan	− 3.1	Nov	− 4.8	Dec	39.8	Dec
Russia	+ 7.0	Q4	+ 4.4	Jan	+10.6	Jan	+120.1	Dec	+81.2	Q3	181.4	Jan
Turkey	+ 7.0	Q3	+ 8.6	Dec	+ 7.9	Jan	−42.9	Dec	−22.3	Dec	50.5	Dec
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+10.8	Q3	+14.3	Dec	+ 4.7	Jan	− 2.5	Nov	− 1.4	Dec	1.9	Dec
Latvia	+11.4	Q3	+ 7.9	Dec	+ 7.5	Jan	− 3.0	Dec	− 2.0	Dec	2.2	Dec
Lithuania	+ 8.2	Q4	na		+ 3.5	Jan	− 3.6	Dec	− 1.8	Dec	3.7	Dec
Slovakia	+ 7.5	Q4	+ 8.7	Dec	+ 4.1	Jan	− 2.4	Dec	− 2.9	Oct	14.9	Dec
Slovenia	+ 3.7	Q3	+ 5.5	Dec	+ 2.4	Jan	− 1.7	Dec	− 0.3	Dec	7.9	Nov

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Financial markets

Feb 16th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 15th		Dec 31st 2004	
	Feb 15th	year ago	Feb 15th	% a year		one week	in local currency	in $ terms
China	8.05	8.28	14.0	2.40	1,362.7	+0.8	+ 2.4	+ 5.4
Hong Kong	7.76	7.80	13.5	4.11	15,423.3	+0.3	+ 8.4	+ 8.5
India	44.2	43.7	77.1	6.55	10,113.2	+0.7	+ 53.2	+ 50.7
Indonesia	9,225	9,295	16,088	13.81	1,236.9	-0.1	+ 23.7	+ 24.4
Malaysia	3.72	3.80	6.49	3.31	927.2	+0.9	+ 2.2	+ 4.3
Pakistan	59.9	59.4	104.48	8.99	11,259.3	+3.2	+ 81.1	+ 79.4
Philippines	51.5	55.1	89.9	7.38	2,074.1	+0.6	+ 13.8	+ 24.0
Singapore	1.63	1.64	2.84	3.31	2,424.2	-0.2	+ 17.3	+ 17.7
South Korea	974	1,026	1,699	4.27	1,303.8	-0.5	+ 45.5	+ 54.7
Taiwan	32.4	31.6	56.4	1.65	6,598.5	-0.4	+ 7.5	+ 5.3
Thailand	39.3	38.6	68.6	4.70	725.7	-1.2	+ 8.6	+ 7.3
Argentina	3.07	2.90	5.35	8.31	1,669.2	-1.5	+ 21.4	+ 17.6
Brazil	2.13	2.60	3.71	17.29	37,239.0	+2.0	+ 42.2	+ 77.6
Chile	530	570	924	4.68	9,537.9	+0.3	+ 6.4	+ 11.6
Colombia	2,252	2,332	3,928	6.07	10,672.4	+7.2	+145.6	+156.5
Mexico	10.5	11.2	18.3	7.55	18,169.2	-1.3	+ 40.7	+ 49.2
Peru	3.29	3.26	5.73	3.74	5,899.7	-3.5	+ 59.0	+ 58.6
Venezuela	2,676§	2,718§	4,668	10.79	26,572.8	-1.0	- 11.3	- 14.5
Egypt	5.73	5.82	9.99	8.09	61,577.8	-6.8	+150.5	+165.3
Israel	4.72	4.37	8.23	5.19	822.4	-0.5	+ 27.7	+ 17.0
Saudi Arabia	3.75	3.75	6.54	5.33	19,853.9	+1.7	+141.9	+141.9
South Africa	6.06	6.00	10.6	7.20	18,734.4	-2.4	+ 48.0	+ 37.5
Czech Republic	23.9	23.2	41.6	2.02	1,518.9	-0.5	+ 47.2	+ 37.7
Hungary	211	188	368	6.08	22,120.5	-0.6	+ 50.0	+ 28.5
Poland	3.17	3.08	5.53	4.27	38,109.0	-0.1	+ 43.1	+ 35.1
Russia	28.2	28.0	49.2	12.00	1,375.1‡	+3.0	+128.0	+123.9
Turkey	1.33	1.32	2.32	14.68	43,804.0	-0.1	+ 75.4	+ 77.6
EM (MSCI)*	1.00	1.00	1.74	na	762.3	+0.1	+ 40.6	+ 40.6
EMBI+†	1.00	1.00	1.74	na	377.7	+0.9	+ 14.6	+ 14.6

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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